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The Economic Bulletin for Latin America has been published by the secretariat of the Economic Commission for Latin America twice yearly since 1956. The essential purpose of this periodical is to provide a résumé of the economic situation of the region designed to supplement and bring up to date the information published in the Commission's annual economic surveys. Apart from this summary, which is to appear in every issue, special articles on different subjects related to the economy of Latin America are included, as well as informative and methodological notes.

The ECLA secretariat assumes entire responsibility for the *Bulletin*. Its content—intended for the information both of public officials and of the general reader—was not submitted to the Commission's member Governments before publication.

Since October 1958 the *Bulletin* has regularly included a Statistical Supplement. This subsequently became large enough to warrant separate publication, one issue being published in 1960, another in 1961 and two in 1962, each being bilingual with the corresponding table of contents. Since 1964, a new publication, the *Statistical Bulletin for Latin America*, has been issued twice a year, to provide the public with a regular flow of statistical data on economic matters.

EXPLANATION OF SYMBOLS

Three dots (...) indicate that data are not available or are not separately reported.

A dash (—) indicates that the amount is nil or negligible.

A minus sign (—300) indicates a deficit or a decrease.

A stroke (/) indicates a crop year or a fiscal year, e.g., 1954/55.

An asterisk (*) is used to indicate partially or totally estimated figures.

"Tons" and "dollars" are metric tons and United States dollars, respectively, unless otherwise stated.

Minor discrepancies in totals and percentages are due to rounding.

INTRODUCTORY NOTE

In connexion with the second session of the United Nations Conference on Trade and Development (New Delhi, 1 February to 29 March 1968), the ECLA secretariat felt that it might usefully help to spread knowledge of the topics discussed at the Conference by reproducing in the present issue of the *Bulletin* the report it had presented under the title of "Latin America and the second session of UNCTAD" (E/CN.12/803). In the version of the text given here, chapter I, analysing recent trends in Latin America's foreign trade, is omitted, since fuller and more up-to-date information on the subject can be found in the *Economic Survey of Latin America* for 1966 and 1967.

The report is supplemented by two other documents which represent milestones on the road towards an international trade policy: the Charter of Tequendama, adopted by the Latin American countries members of the Special Committee on Latin American Co-ordination (CECLA) at its Fourth Meeting at the Expert Level (Bogotá, September 1967); and the Charter of Algiers, adopted by the developing countries members of the Group of 77 (Algiers, October 1967).

LATIN AMERICA AND THE SECOND SESSION OF UNCTAD

I. INTRODUCTION

This report, which the ECLA secretariat presented to the second session of the United Nations Conference on Trade and Development (UNCTAD), was prepared in compliance with ECLA resolution 264 (XII) and General Assembly resolution 2206 (XXI).

In this last resolution, the General Assembly invited United Nations agencies and the regional economic commissions "to pay special attention, in their programmes, to preparations for the

second session of the Conference, and to take such steps as may be feasible to extend their full co-operation in ensuring its success". In ECLA resolution 264 (XII), the Commission, "having studied the report submitted by the secretariat of the Commission on Latin America and international trade policy (E/CN.12/773), a provisional version of the study which it is preparing for the second session of the Conference on Trade and Development as part of

its continuing work of analysis and elucidation of the Latin American countries' external sector problems, and also in compliance with resolution 262 (AC.58)¹ of the Committee of the Whole of this Commission", requested the secretariat "to revise and update that document, with due regard to the comments, statements and recommendations made during the proceedings of the present session and such new developments bearing on foreign trade and trade policy as are of particular concern to the Latin American countries, for the purposes set forth in resolution 262 (AC.58), and for presentation to the second session of the Conference". It added that "the secretariat shall transmit the document to all the States members of the Commission and consult the Governments of the developing countries members of the Commission as and when appropriate, with a view to convening a meeting of government experts to consider the document before the second session of UNCTAD", subsequently listing several aspects to be taken into account by the secretariat in its revision and updating of the document in question.

In accordance with these provisions, the ECLA secretariat prepared several reports on such topics as commodity trade problems and policies, expansion and diversification of exports of manufactures and semi-manufactures, and problems stemming from the unilateral use of escape clauses, which served as a basis for the discussions of the Special Committee on Latin American Co-ordination (CECLA) at its Fourth Meeting at the Expert Level (Bogotá, September 1967). The conclusions reached during these discussions were set forth in the Charter of Tequendama, in which the countries members of CECLA adopted a common stand on some of the substantive aspects of the agenda of the second session of UNCTAD, with a view to communicating their position to the participants in the Ministerial Meeting of the Group of 77 (Algiers, October 1967).

¹In this resolution, the ECLA Committee of the Whole requested the secretariat "to accord the Latin American countries the co-operation and advice needed, on an individual or collective basis, for the purpose of defining possible lines of joint action in the field of trade policy, especially in relation to . . . questions of special interest for those countries that it is decided to consider at the second session of UNCTAD". In accordance with this resolution, the Special Committee on Latin American Co-ordination (CECLA) requested the ECLA secretariat, in a resolution adopted at its Third Meeting at the Expert Level (Mexico, July 1966), to prepare a basic draft document defining the position to be taken by Latin America at the second session of UNCTAD.

After this Meeting the ECLA secretariat prepared, in accordance with resolution 264 (XII), a preliminary version of this document taking into account, *inter alia*, the provisions of the Charter of Tequendama and the Charter of Algiers, and submitted it for consideration to the Meeting of Government Experts of the Developing Countries Members of the Commission held at the Commission's headquarters from 11 to 15 December 1967.

1. THE SECOND SESSION OF UNCTAD

The second session of UNCTAD is of far-reaching importance for the developing countries. There is a need for fundamental changes in international economic and financial policy and this Conference provides an exceptional opportunity for determined joint action on the part of the Latin American countries and other developing regions, with a view to securing the adoption of specific decisions conducive to the establishment, on the international plane, of new conditions that will promote the expansion of trade, and to the provision of instruments for implementing the technical and financial co-operation programmes needed by these countries.

The vicissitudes of Latin American development in the last few years demonstrate that if these institutional and policy changes are not made, at both the domestic and the international levels, it will be impossible to ensure a satisfactory rate of economic growth and development. As the problems besetting these countries are becoming ever more urgent, far-reaching decisions are required to overcome them. It must be hoped that the economically more advanced countries, in which wealth, well-being and technical progress are being concentrated, in contrast with the stagnation and weakness prevalent in the developing countries, will decide—for reasons of equity and in view of the responsibility they assume in the international community—to promote these economic and financial policy changes.

There are many institutional, economic and social factors which combine together to limit the growth possibilities of the Latin American economies and have much to do with the instability to which they are prey. The external sector bottleneck not only curtails or impedes economic growth, but also makes it difficult to introduce structural changes and overcome other restrictive factors of an internal nature.

The rigidity of Latin America's external transactions and the lack of dynamism in the export sector will nullify the efforts that should be made to increase the national saving needed

to raise production capacity. Without external financial co-operation, supplemented by expansion and diversification of exports, it will be practically impossible to speed up capital formation and raise the level of income. The process of integration itself, which is the cornerstone of Latin American development strategy, will be seriously threatened if the blockage in the region's economic and financial relations with the rest of the world is not eliminated.

2. THE EXTERNAL SECTOR BOTTLENECK AND THE WEAKNESS OF THE ECONOMIC GROWTH RATE

The increased export earnings of the Latin American countries in recent years aroused a certain amount of optimism that more favourable trends in the export sector might eliminate the bottleneck which was holding up economic development in those countries. Export earnings, which by 1955 had increased at a rate of scarcely 1.5 per cent annually and which had remained relatively stationary for the non-petroleum-exporting countries as a whole, began to pick up and grew at an annual rate of more than 5 per cent from 1960 onwards.

Other factors which helped to raise the growth rate of income in Latin America in the space of a few years and to strengthen the more favourable outlook for Latin American development included certain external financing facilities, the implementation of regional financial co-operation programmes, progress in national planning—which led in particular to a better allocation of public resources—a greater willingness to tackle the structural problems relating to agrarian reform, the modernization of public administration, tax reforms and the ground gained in the integration process.

The outlook was further strengthened by the principles and recommendations adopted at the first session of UNCTAD and by the statements, objectives and standards formulated in GATT, particularly with the initiation of the Kennedy Round. In short, there was room to believe that a start had been made on preparing a new international trade and financing policy which would enable the developing countries to embark on a period of more stable and satisfactory economic growth.

Events were, however, to fall far short of these hopes. The relative position of Latin America as regards production and economic development continued to deteriorate, and the commitments, principles and recommendations designed to build a new structure for the world market and development financing were not effectively implemented.

The annual economic growth rate of Latin America as a whole was not even 5 per cent and was well below the targets established in the regional co-operation programmes. From 1960 to 1966 the average annual growth rate of income was less than 4.5 per cent. Estimates indicate that it did not exceed that in 1967 and may even have been lower, as a result of the marked deterioration in the terms of trade.

These rates reveal that the development of the economy has been very unsatisfactory, the more so as population in Latin America has an annual growth rate approaching 3 per cent. Therefore, there is insufficient economic growth to occupy the labour force productively or to improve the levels of living of the population, since average per capita income is growing at an annual rate of scarcely 1.5 per cent.

An over-all growth rate of 5 per cent was achieved only in two years for the region as a whole, and it can be seen that there has been a continued weakening of the economic growth rate, in line with a long-term trend which has been apparent since 1955, although some Latin American countries have experienced a more favourable development.

The increase in export earnings in the first six years of the nineteen-sixties was not a product of changes in the structural conditions which have long proved an obstacle to the expansion and diversification of Latin American exports. It was more the result of a combination of circumstances likely to disappear over the short term, and this is, in fact, what happened. While it is true that the increase in foreign exchange earnings was in part due to greater demand in the industrialized countries, spurred by their extraordinary economic growth, it was no less attributable to other kinds of factors, such as reduced supply of certain products in other producer areas, because of adverse weather conditions, trade union conflicts and delays in production programmes, which brought about a rise in prices and an increase in the volume of exports.

An examination of the destination of Latin American exports in the last few years shows that exports to other Latin American countries and to the socialist area displayed greater dynamism. These exports have a relatively minor effect on absolute export earnings, since their share of total exports is still small (less than 20 per cent, even including Cuba's exports). In contrast, exports to the industrialized countries grew at a slower rate.

The disappearance of those temporary factors and reduced demand in the industrialized coun-

tries, whose rate of economic growth declined in 1967, limited Latin America's exports and brought about an almost general drop in world market prices for staple commodities. This movement, which was already apparent in 1966, spread in 1967 to coffee, meat, maize, fish meal, wool, copper, tin, lead and zinc, which lost all the ground they had gained with the rise in prices in 1964 and 1965. Thus, the value of exports in 1967 tended to remain stationary or to decline in several countries, and for Latin America as a whole it is unlikely that export earnings in dollars will top the figure of 10,700 million reached in 1966.

This deterioration in the terms of trade is extremely serious at the present stage of economic development in Latin America. Import substitution is tending to reach its limits, the export structure is extremely inflexible, imports have for many years been held down, and the resultant tensions in the balance of payments are accentuated by the heavy burden of servicing investment and the external debt. Between 1960 and 1966 financial services—for amortization, profits and interest on investment and external loans—increased far more than export earnings. While the latter increased by 35 per cent, remittances of profits and interest rose 67 per cent and amortization payments on autonomous loans by 41 per cent. In short, these financial services in 1966 absorbed a third of the total value of income from exports of goods.

For this reason, imports have been unable to grow at the same pace as export earnings. The countries were obliged to meet the service payments on the accumulated debt and to replenish to some extent the monetary reserves, which had fallen to a dangerously low level. In these circumstances, any reduction imposed on imports would inevitably lead to a shortage of essential supplies, thus affecting the levels of economic activity and capital formation.

Moreover, past experience has shown that a deterioration in the terms of trade cancels out the possible effects of foreign capital and financing on investment and production, and worsens the balance-of-payments situation, because in addition to the increase in financial services the developing countries are making a free and direct transfer of resources to the economically more advanced countries as a result of the deterioration in export prices.

3. PROSPECTS FOR LATIN AMERICA'S EXPORTS AND ECONOMIC GROWTH

What has been said of the external-sector bottleneck implies that the future development of

trade and external financing in relation to the economic growth of Latin America will encounter serious difficulties, and in the end will prove definitely unsatisfactory, unless there is a change in the existing situation as regards both trade and international economic and financial policy. This view is corroborated by the technical studies on long-term projections carried out in recent years, in particular since the first session of UNCTAD. Moreover, Latin America's experience since 1955 has once again testified to the external sector's vital importance for the development process, and to the necessity of rapidly stepping up export earnings and available external financing so that the growth rate can be increased in consonance with the expansion of production capacity.

Latin America's economic growth rate should average over 6 per cent, to enable the region to absorb its labour force, improve levels of living—especially in the lower income groups—, facilitate the implementation of structural reforms and launch far-reaching programmes for the education and training of human resources. If this development process is to be conducted with a reasonable degree of efficiency, and if income trends are really to improve sufficiently for the above-mentioned target to be attained, imports should expand at much the same rate as income to permit the satisfaction of requirements in respect of essential goods, in particular the capital goods needed for increased investment in the expansion of production capacity. This does not mean that the import substitution process should not continue.

The projections with respect to the evolution of exports in existing conditions show that it is impossible for the target growth rate to be attained, because of the considerable potential deficit deriving from the gap between projected exports and import requirements and from the scale of returns and interest on the foreign investment and loans that would be needed. The outlook is similar, although the deficit is smaller, when the technical study postulates more modest development objectives (for example, an annual growth rate of a little over 5 per cent).

From the short-term standpoint, the following highly significant facts bear out this somewhat gloomy view of external-sector development prospects in the Latin American region:

(a) The basic principles and recommendations adopted at the first session of UNCTAD, with the aim of establishing a new organizational pattern of international trade and promoting the financial co-operation required by the de-

veloping countries, were related to the need to refrain from setting up new barriers against primary commodities produced by the developing countries, to eliminate or reduce internal and external taxes and restrictions which hamper trade in such products and in semi-manufactures and manufactures, to concert agreements or arrangements of other kinds designed to ensure the expansion of exports and to guarantee remunerative and stable prices, to adopt the shipping measures proposed and to pursue the objectives established with respect to the availability of external financing and to policy in this field. They have hardly been reflected at all in specific decisions, however, and the quantitative objectives postulated on that occasion are still a long way off. It may even be asserted that in many important respects the over-all situation has deteriorated as far as the Latin American countries are concerned;

(b) The results of the Kennedy Round have fallen short of expectations aroused, especially in the light of the objectives and principles originally established with a view to solving the problems of the developing countries. Admittedly, tariff concessions or reductions were negotiated for some of the products of the developing countries, but nothing was done to remove the basic obstacles that prevent these products from gaining access to the developed countries' markets on satisfactory terms. What is more, the concessions will lead to the expansion of trade among the developed countries and will undermine the position of the countries at less advanced stages of development, although indirectly they may also afford incentives to demand for certain Latin American export items;

(c) It is all too well-known that the weakness of commodity prices adversely affects the terms of trade, and ultimately aggravates the sluggishness and instability of the rate of economic development in the Latin American countries;

(d) Restrictive measures are being adopted in the industrialized countries that will be reflected—as has already been the case in 1967—in a contraction of demand or a fall in prices for imports of the developing countries' products;

(e) The discriminatory policy of protection and expansion which the industrialized countries are pursuing with regard to primary products which constitute some of Latin America's traditional exports is even carried so far as to include the granting of export subsidies, with obviously damaging effects on sales and prices of Latin American products. It is likely to be

strengthened, and more widely applied, if other industrialized countries join the communities or areas concerned;

(f) There is a danger that the geographical area of application of the system of special preferences may be broadened and that new products may be incorporated, to the detriment of the Latin American countries' export trade;

(g) Proposals are again being mooted in the United States for the imposition of restrictions on important Latin American export items, a proceeding which might seriously jeopardize the favourable intentions expressed by the United States Government—particularly in the Declaration of the Presidents of America—with respect to co-ordinating efforts and supporting solutions in favour of the less advanced countries in substantive aspects of economic and financial policy;

(h) Competition from substitutes and synthetics continues to affect exports of natural products;

(i) Certain financial provisions which—for balance-of-payments reasons or on account of monetary policy patterns—are being applied in the industrialized countries are tending to restrict financial co-operation, reduce the volume of aid and raise the costs of financial assistance through higher rates of interest and through tied loans.

To sum up, as regards the expansion of trade and external financing facilities, the objectives proposed by the developing countries at the first session of UNCTAD, which on that occasion began to be translated into terms of resolutions, commitments or recommendations, are still, in essence, targets on the horizon, despite the time that has elapsed and the commitments assumed by the developed countries. The experience acquired since then shows how justifiable were those proposals and how pressing is the need for radical changes in the field of international trade and financing, in order to open up possibilities for the expansion of the economically less developed countries' production and trade.

4. SCOPE AND MAIN AGENDA ITEMS OF THE NEW DELHI CONFERENCE

It has already been pointed out that the New Delhi Conference will afford an exceptional opportunity of translating into terms of specific decisions the commitments, principles and recommendations agreed upon at the first session of UNCTAD and in other international forums, or of concerting specific action programmes and

practical procedures through which the various commitments assumed may find immediate expression in government decisions.

Obviously, at the forthcoming session of UNCTAD it will not be possible to embark upon detailed negotiations with respect to every single one of the agenda items. But at least approval may be secured for guiding principles on which such negotiations can be based, and for appropriate suggestions as to the technical studies that should be carried out, the meetings of experts that should be convened, and the terms of reference and deadlines that should be complied with in the various stages of the work up to the application of final decisions.

A very sensible proposal in this connexion seems to be that of identifying the essential questions of interest to the developing countries on which basic studies are available or which have been sufficiently clarified. In respect of these, negotiations could be undertaken without further delay, or specific bases for that purpose discussed.

Some of the principal items on the agenda for New Delhi which are ripe for negotiation or discussion with a view to arriving at practical decisions are summarized below.

(a) *Commodity trade*

Where commodity trade is concerned, the consensus of opinion is that the developing countries will be able to expand their exports at a satisfactory rate only in so far as the developed countries adopt policies designed to improve conditions of access to their markets. With all due regard to the cases in which the sluggishness of export growth rates is imputable to limitations on the supply side, it is generally concluded that the development of Latin America's exports is chiefly determined by the fluctuations of external demand, and that the demand in question might increase more rapidly if better conditions of access to markets were established. A *sine qua non* for the attainment of this objective is the adoption, at the forthcoming session of UNCTAD, of specific decisions and measures such as the following:

(i) Setting of ceilings on self-sufficiency in the developed countries, in order to guarantee the developing countries' exports a specified minimum share in total supplies for the developed countries. The maintenance of this minimum share would entail an undertaking on the part of the developed countries to refrain from encouraging anti-economic production, through measures to protect agriculture, in activities

competing with the export lines of developing countries;

(ii) Reduction and elimination of customs duties, internal rates and taxes and non-tariff restrictions applied to imports of commodities produced solely or mainly by the developing countries. An indispensable requisite for the general liberalization of conditions of access for items produced only by the developing countries is that appropriate procedures be devised for the gradual elimination of the discriminatory preferences granted by some of the developed countries in favour of certain developing countries. By this means the developing countries could attain a higher degree of solidarity and community of interests;

(iii) Adoption of measures which will help to improve the competitive position of certain natural products in whose case world consumption has been declining as a result of competition from substitutes or synthetics. This could be done through programmes at the international level covering the improvement of productivity, research on new uses of natural products and, in general, promotion of consumption of the commodities concerned. The same end would be served by any measures that the developed countries might adopt to discourage over-protection of the production of synthetic substitutes.

It is unanimously agreed that in dealing with world commodity trade problems the product-by-product approach should be adopted, not only in relation to the liberalization of conditions of access, but also for the purposes of establishing prices that will be remunerative for the developing exporter countries and will help to increase their export earnings. In this sense, agreements and other international arrangements respecting commodities constitute a technique for the orderly regulation of markets which can be turned to useful account in the case of various products of importance to the developing countries, especially in so far as their terms cover not only the traditional export regulation machinery and multilateral sale-and-purchase commitments, but also other procedures, such as the operation of buffer stocks and the financing of programmes to promote diversification of production and exports.

Little progress has been made in the negotiation of international commodity agreements since the first session of UNCTAD, despite the participants' unanimous recognition of the opportunities they afford for overcoming some of the most serious obstacles to the expansion of the developing countries' trade. For that very

reason it is to be hoped that substantive decisions may be adopted at the New Delhi Conference which will help to create an atmosphere of closer co-operation between developed and developing countries, in respect of negotiations of this kind.

(b) *Manufactures and semi-manufactures*

One of the most urgent of the objectives proposed for the second session of UNCTAD is the establishment by the developed countries of a system of general preferences in favour of manufactures and semi-manufactures exported by the developing countries. The suggestions formulated in the present document on principles that should be agreed upon at the second session of UNCTAD as a basis for this system, which are much the same as those propounded in the Charters of Tequendama and of Algiers, are as follows: the preferences should be general, non-discriminatory and without reciprocity; they should take the form of free access to markets through the complete elimination of import duties and non-tariff restrictions, although quotas might be established for certain "critical" or "sensitive" products; with a very few exceptions, they should cover all manufactures and semi-manufactures produced in developing countries, without restrictions on volume or value. Another measure envisaged is the establishment of permanent machinery for the supervision and evaluation of the system, for consultation purposes and for the identification of such problems as might arise. At the close of a minimum initial period, the system would be reviewed so that any necessary measures or amendments could be adopted.

Lists of exceptions would have to be prepared subject to consultation and negotiation with the developing countries, not established unilaterally. Should it prove impossible to avoid the inclusion of products of particular interest to the developing countries in the lists of exceptions, reductions of duties or free quotas should be obtained for the products concerned.

It should be stressed that escape clauses should in no case be freely interpreted and unilaterally applied by the developed countries. Recourse to them should be subject to a multilateral consultation procedure designed to ascertain whether their application is really justified. It would also be essential for the developed countries to undertake to adopt internal measures which would facilitate any adjustments that might be rendered necessary by competition from similar lines of production in developing

countries. The duration of the preferential system would have to be long enough to ensure that its aims were fulfilled and that all the developing countries were able to benefit by it.

Besides determining the bases for such a preferential system, the New Delhi Conference would have to issue a pronouncement on the date of its entry into force. It might be brought into operation on 1 January 1969, even if every detail of the machinery had not yet been approved.

(c) *Development financing and monetary problems*

The question of development financing has four basic and interdependent aspects:

(i) The problem of the institutional organization and the co-ordination of financial policy measures is not easy to tackle as a whole, in default of prior studies. However, some headway can and must be made forthwith in respect of certain specific questions that should be discussed at the New Delhi Conference. These include the current proposals for turning the International Bank for Reconstruction and Development (IBRD) into a specialized development bank for the under-developed countries; for strengthening regional financial institutions; for providing the International Development Association (IDA) with additional resources; for liberalizing the International Monetary Fund (IMF) system of compensatory financing; and for introducing a supplementary financing scheme. A good deal of progress has been made in the study of the technical and practical aspects of this last measure. Specific recommendations on all these proposals, particularly the last two, are contained in the Charters of Tequendama and of Algiers;

(ii) It is urgently necessary for the New Delhi Conference to undertake positive commitments with respect to the policy and machinery required to expand the net inflow of resources into the developing countries and ensure that it represents the target proportion of the gross product of the industrialized countries (1 per cent). A substantial increase in the relative contribution of public funds and grants-in-aid is an outstanding need in this connexion. Changes in IBRD's policy are also indispensable. Its funds should be diverted towards the developing countries, and to that end the developed countries should pay off their debit balances on IBRD loans before maturity. This would be one way of increasing IBRD's available resources and supplying IDA with additional funds, although it would not preclude the

provision of extra resources for IDA by developed countries members of IBRD;

(iii) In connexion with the general terms and patterns of external financing, attention should be drawn to three sets of proposals: those specifically formulated in the Charter of Algiers to the effect that all development loans should be extended on the terms currently applied by IDA; those relating to the establishment of a multilateral interest equalization fund; and those concerning a study of the restrictive practices and high costs characterizing suppliers' credits and tied loans;

(iv) In the framework of this reorganization of development financing, everything possible should be done to consolidate or re-schedule the accumulated debts of developing countries.

Lastly, in connexion with the decisions taken at the most recent IMF meeting on the establishment of new special drawing rights, recommendations or decisions should be adopted at the second session of UNCTAD to enable the developing countries to use those rights in a proportion exceeding that corresponding to their quotas. If the regulations were uniformly applied, the additional sums available to the developing countries would be very small.

(d) *Shipping*

At the most recent meetings of the Trade and Development Board, and at the second session of the Committee on Shipping, it was advocated that in this field too attention should be focused at the second session of UNCTAD on those questions which lent themselves to the adoption of specific measures. Cases in point would seem to be the establishment of consultation machinery and the expansion of the developing countries' merchant marines.

The proposals on shipping formulated by the developing countries at the first session of UNCTAD were almost identical with the conclusions and recommendations incorporated in the Charters of Tequendama and of Algiers. The inference is that the problems put forward four years ago are still unsolved.

The lack of long and complex studies should be no bar to the adoption of certain significant decisions on this occasion, in relation, for example, to freight rates and shipping conference practices. In this context, the present document contains the following suggestions, which are also included in the Charter of Tequendama: (i) the application of incentive freight rates to facilitate exports, especially of manufactured goods; (ii) the elimination of the so-called general cargo rates and similar types of tariffs; (iii)

the abolition of certain shipping conference practices, such as the "closed" nature of many conferences, the fact that they are not effectively represented in a number of major ports in the developing countries, and the insufficient publicity given to shipping rates and other conditions of carriage.

Renewed emphasis should be laid on the right of developing countries to establish and expand merchant marines of their own. To this end, measures will need to be adopted to facilitate the provision of financing and technical assistance. Similarly, efforts must be made to secure acceptance of the principle that a substantial proportion of cargo should be reserved for carriage under the national flags of the developing countries, without measures of reprisal on the developed countries' part.

Among the other recommendations discussed in the present report and contained in the Charters of Tequendama and of Algiers, mention may be made of those relating to the establishment of a system for consultation between shipping conferences and shippers' councils. The resolution adopted on this point at the second session of the Committee on Shipping represents an important step forward, but it is essential that agreement be reached on a programme of action to ensure that the terms of the resolution are implemented all over the world.

(e) *Trade expansion and economic integration among developing countries*

There is widespread agreement in Latin America on the vital importance of integration in accelerating the region's development. Despite the difficulties facing economic integration because of the conditions peculiar to the Latin American countries, the results have been very encouraging, particularly in Central America. Recently, efforts have been made to extend and accelerate the integration process, as is clear from the practical steps being taken by the group of Andean countries and in the Caribbean area. Furthermore, the Declaration of the Presidents of America contains provisions and very precise objectives, which constitute a veritable far-reaching action programme for the gradual establishment of a common market for the whole Latin American region.

The Charter of Tequendama puts forward several proposals on the expansion of trade with other developing countries, which should be the subject of consideration at New Delhi. Particularly noteworthy are those relating to the non-extension to the developed countries of the special advantages negotiated by the developing countries; the need for those developed coun-

tries which grant tied loans to agree to the use of such credits for purchases in other developing countries, especially in the same region; and the renunciation by the developed countries of trade preferences which discriminate against other developing countries, or at least the unilateral extension of such preferences to all developing countries.

In the Charter of Algiers, it is suggested that at the second session of UNCTAD a special working group should be set up to study various questions relating to trade expansion and economic integration among developing countries, and that a decision should be taken regarding the establishment of a permanent committee for dealing with such questions.

(f) *Special measures in favour of the relatively less developed countries*

The international community has accepted the principle that measures to improve external sector conditions in the developing countries should include special treatment for the economically relatively less developed of those countries. This principle has also been accepted by the Latin American Free Trade Association (LAFTA) and is included in the Declaration of the Presidents of America as a basic principle of Latin American integration.

The practical application of this principle at the international level raises a number of difficulties that require careful consideration. For example, criteria must be established for determining which are the relatively less developed countries and what type of measures would constitute more favourable treatment in matters of trade, financing and technical co-operation.

With regard to the second point, a number of proposals are set forth in the Charter of Algiers on commodity trade, manufactures and semi-manufactures, and on technical and financial assistance. The Charter also lists several spheres of action in which policy measures in favour of these countries should converge, and records the decision to establish a working group to formulate recommendations for submission to the second session of UNCTAD.

(g) *Trade with the socialist countries*

Latin American exports to the socialist countries have expanded considerably in recent years, particularly in the period 1964-66, although in absolute terms the quantities involved are still relatively small, except in the case of Cuba. Generally speaking, this trade is based on short- and medium-term bilateral agreements, with indicator lists of products and a bilateral payments mechanism under which balances can only be spent in the debtor country. However, there have been, in addition, a number of convertible-currency transactions, mostly in trade with mainland China and Czechoslovakia and exports of cereals from Argentina to the Soviet Union.

In the most recent period, the Soviet Union has signed trade agreements with two Latin American countries (Brazil and Chile), providing credit over a longer term and allowing the beneficiary countries to repay 25 and 30 per cent of their respective loans in the form of exports of manufactures. These agreements provide for the use of convertible currency in reciprocal accounts, and the transfer of trade balances to third countries, subject to the agreement of the contracting parties.

There is considerable potential for the growth of trade between the Latin American and socialist countries. The Charter of Tequendama reaffirmed the interest of the Latin American countries in promoting greater mutual trade and listed some of the principles and bases for attaining that objective. Among the measures proposed in the Charter, particular importance is attached to the inclusion in the purchasing plans of the socialist countries of increasing volumes of products from developing countries; the adoption of measures to reduce excessive margins between the import prices and domestic selling prices of those products; greater flexibility in reciprocal payments agreements, both within and outside the socialist area; an increase in the proportion of trade paid for in convertible currency; and the granting of trade preferences roughly equivalent to the free access conditions which the developing countries are requesting from the market-economy countries.

II. THE MAIN LINES OF INTERNATIONAL TRADE POLICY

A. THE POLICIES OF THE MAJOR CENTRES IN THEIR TRADE WITH LATIN AMERICA

1. TRADE POLICY OF THE EUROPEAN ECONOMIC COMMUNITY

During the past three years the European Economic Community (EEC) has achieved con-

siderable progress in the preparation and implementation of its trade and agricultural policy. There are strong reasons for concluding that there is a link between these institutional achievements and the growing difficulties that the Latin

American countries are experiencing in their efforts to increase their trade with that region. As the EEC countries constitute the second largest purchasing centre for Latin American products, second only to the United States, the Latin American Governments have understandably been very concerned about this situation and have tried, thus far unsuccessfully, to obtain certain guarantees for their exports.²

The Latin American countries are especially concerned about prospects for exports of the temperate zone, meats and cereals in particular, since these products compete directly with output of the Community and therefore are subject to a very protectionist régime.

At the end of 1967 almost half of the Community's agricultural production (in terms of value) was subject to the common market régime, which means free circulation of products, application of Community prices and the intervention of the European Agricultural Guidance and Guarantee Fund (EAGGF) in questions of export subsidies and regulation of internal markets. The products which have become subject to this régime are cereals, pork, rice and oilseeds. On 1 July 1967 the single market for cereals (wheat, corn and barley) came into effect on the basis of common prices previously agreed upon and adjustable customs duties for third country imports.

The single market for beef is expected to go into effect on 1 April 1968, but the common price system and variable levies have been in effect since 1964. Since that year meat of Latin American origin has been subject to a duty equal to the difference between its c.i.f. value and the guide prices of the importing member country,³ and this cancels out its price advantage. There is no doubt that this arrangement has had a negative effect on the volume of exports of Latin American meat to the EEC market compared with the previous period. If it were not for the fact that the Community does not produce enough meat, particularly beef,⁴ there would have been even more unfavourable reper-

ussions for foreign producers. However, the policy of increasing Community supply by developing livestock production and progressively eliminating foreign competition is a threat to Latin America's meat export prospects.

An important element of this common agricultural policy is the establishment of common prices by the Council of Ministers which will greatly influence the relative share of foreign producers in the total supply of EEC. It is, therefore, of interest to consider the decisions taken by the Council of Ministers in November 1967 on prices that will go into effect with the 1968 harvests.

In general, the prices adopted are higher than those of the preceding crop-years, with the exception of wheat prices, in which there was no change; maize showed an increase of 4.75 per cent, rice and barley 4 per cent, and beef 2.8 per cent. Although the EEC Commission had actually proposed larger increases (10 per cent in the case of maize, which is in short supply in the Community, and 5.5 per cent for meat) the decisions adopted clearly reflect a trend towards increasing the prices of the Community's main agricultural products, which is likely to continue in the next few years.

This policy constitutes an obstacle to the expansion of agricultural imports by the Community: in the first place, by guaranteeing high prices it stimulates internal production and may even make the member countries self-sufficient; and, in the second place, it raises higher tariff walls against foreign products, since each price increase is translated into a corresponding expansion of the variable levy to be paid on these products at the Community's frontiers.

The common agricultural price policy is intended to improve the position of a socio-economic group whose income is still lower than that of other sectors of the population, and to develop certain branches of agriculture in which production is deficient, by taking advantage of the potential resources of some member countries. Other countries, particularly those of Latin America, cannot but recognize the political and economic importance of these considerations, even though they may sometimes lead to the protection of inefficient agricultural sectors.

The establishment of quite legitimate goals cannot be allowed, however, to lead to the progressive closing of the EEC market to some of the exports of the developing countries, especially those of Latin America. In order to prevent this, the Governments of the Community should reserve a share of their total market for the main export products of the developing

² The EEC/Latin American liaison group which has been holding informative meetings in Brussels since mid-1964 presented a memorandum to the European Economic Commission on 4 February 1966 which summarized the joint conclusions of the seven working groups among which the liaison group distributed its work.

³ Before a single community price is adopted in 1968 each country will fix national guide prices within certain limits determined by the Council of Ministers.

⁴ Total EEC production of beef and veal provides for 85 per cent of total consumption of the region and the only country that produces more than it consumes is the Netherlands.

countries. This might be achieved through establishing duty-free import quotas and placing ceilings on the Community's self-sufficiency in certain products. This would make it possible to reserve a share, not only of the Community's present market, in absolute terms, but also of its future growth for the developing countries.

In their present form, the Community's regulations relating to agriculture not only make EEC increasingly self-sufficient in a number of products of special interest for Latin America,⁵ but also stimulate, through the European Agricultural Guidance and Guarantee Fund, competition between the Community's agricultural products and those of other regions, particularly Latin America. One of the special functions of the Fund is to finance exports of EEC's agricultural surpluses, paying producers the difference between the internal market price and the world price, which is frequently lower. Since a high proportion—about 50 per cent—of the Fund's resources comes from variable levies on imports of agricultural products from other countries, the latter are placed in the position of helping to finance exports of the Community which in some cases are in direct competition with their own products on markets in third countries. The lower the price of the foreign product imported into EEC (i.e., the more efficiently it is produced), the higher the variable levy and the corresponding payment to the Fund will be, and the Fund will be able to intervene all the more, not only in financing the Community's agricultural exports but also to support internal prices, this being another of its important functions. There is reason to question the soundness of an arrangement that shifts part of the cost of certain structural defects of the agricultural sector in a group of developed countries on to the shoulders of developing countries.

The EEC Commission has reacted to the concern of the Latin American countries over prospects for their sales of temperate zone products to the Community by stating that, as a rule, the implementation of the common agricultural policy should not damage these prospects, since it has to do with products that are in short supply in the Community (cereals, fodder, hard wheat, oil-seeds, vegetable oils, wool, cotton, leather and beef). During the Kennedy Round, the EEC Commission had suggested a pact to Argentina containing the bases for a general agreement on frozen beef. The proposal

⁵ There is already a high degree of self-sufficiency in certain products; i.e., beef, 85 per cent; wheat, 110 per cent (France, 146 per cent); other cereals, 66 per cent (France, 130 per cent); sugar, 97 per cent (France, 136 per cent).

was accepted by Argentina, and the agreement was signed on 14 May 1967. However, in spite of the fact that this country gave all the necessary guarantees to avoid disruptions of the Community market, the following month the Council of Ministers introduced unacceptable changes which completely distorted the basis of the agreement and prevented its final acceptance.

Another aspect of the Community's policy to which the Latin American countries have objected is related to their exports of tropical products and the granting of discriminatory preferences to a growing number of countries. Latin American concern is focused mainly on three products, coffee, cocoa and bananas, and on the problems likely to arise in connexion with these products as a result of the preferential treatment granted by the Community to other developing countries. Moreover, some Latin American producers have had to lower their export prices in order to meet the growing competition from the tropical products of the Associated States of EEC, with the result that the discriminatory system also interferes with the world stabilization of primary commodity markets, an objective advocated by EEC itself.

While continuing to insist on the elimination of tariff and non-tariff barriers and of preferences, the Latin American countries proposed to the Community that an attempt should be made to arrive at understandings on specific products through agreements which would enable them to preserve their traditional share of the Community's market. In reply, the EEC Commission stated in a report addressed to the Council of Ministers in December 1966 that discriminatory preferences in favour of the African Associated States of EEC had not thus far prejudiced Latin American exports of the same products. It was pointed out that Latin American exports of coffee had continued to increase whereas those of the African countries had diminished; the favourable development of banana shipments continued to enjoy a duty-free quota in the German market; and the smaller share of the cocoa market was due to problems of quality, particularly in the case of Brazilian cocoa.

So far as preferences were concerned, the report indicated only that this was a very delicate problem which had to be solved at the political level; whereas the Latin American countries sought their abolition, on the basis of UNCTAD recommendations, the developing countries favoured by such preferences were disposed to renounce them only if they could obtain prior compensation in the form of equivalent advantages at the international level. Nevertheless

the EEC Commission appears to be prepared to examine this problem, first in UNCTAD and later in the framework of future relations with the African Associated States (revision of the Yaoundé Convention in 1968/69).

The concern of the Latin American countries appears even more justified now that the Community is showing a tendency to extend the geographical area of its preferences. Thus the Lagos agreement, signed on 16 July 1966, established an associate relationship with the Republic of Nigeria, extending the influence of the Community to a country that has not been linked traditionally to the economic and political complex of continental Europe. Except for cocoa and certain oil-seeds, subject to duty-free quotas which increase by 3 per cent per year, Nigerian products enter the Community duty-free and, in compensation, Nigeria grants tariff preferences to certain EEC manufactures. The Community has been discussing possible association with Kenya, Uganda and Tanzania, but this has not yet come about since these countries have refused to grant preferential treatment to Community products. Other negotiations have been carried on with the Maghreb countries (Algeria, Tunisia and Morocco) with the main objective, here also, of obtaining favourable treatment for the products of this region. This policy suggests that, over the short or medium term, this type of special relationship between the Community and Africa will probably be progressively extended, to the detriment of the position of the other developing regions in the EEC market. At its second session, UNCTAD will have to take decisions to prevent the progressive division of the world into economic blocs, which would not be in the interests of the developing countries.

In a memorandum of 4 February 1966 the Latin American delegations in Brussels presented a list of 102 manufactured and semi-manufactured products for which the countries of the region were interested in obtaining reductions in customs duties, the lifting of restrictions, or special treatment through customs quotas, or the establishment of tariff sub-items. So far the EEC Commission has not shown any willingness to heed the Latin American claims. The tariff concessions granted by EEC during the Kennedy Round relate to only a small number of these products and do not include any preferences for Latin America. The Community indicated that it did not wish to commit itself with respect to products for which Latin America was not its main supplier, but it was more receptive concerning certain processed agricul-

tural products of which the Latin American countries are the main suppliers.⁶ In general, all the proposals regarding manufactured products contained in the memorandum of 4 February 1966 are still valid.

2. THE ATTITUDE OF THE UNITED STATES IN ITS TRADE WITH LATIN AMERICA

It has already been pointed out that there has been quite a sharp contraction, in relative terms, in the United States market for Latin American exports, particularly for certain types of products, a development which is a matter of concern to the Governments of those countries, as is the fact that their exports to a country which is still their principal customer are not growing fast enough.

In seeking an explanation of this contraction, the most recent changes in United States trade policy must be considered, although other factors, such as the competition of products from other regions of the world, may have contributed to it.

Of particular significance is the fact that the United States was one of the signatories of the Declaration of the Presidents of America, which recognizes the adverse conditions existing for Latin America's foreign trade and the need to correct them through both individual and joint efforts on the part of the members of the Organization of American States (OAS).

In chapter III of this Declaration it is agreed that measures to improve the condition of the Latin American export trade are required. These include co-ordination in multilateral negotiations to achieve the greatest possible reduction or the elimination of tariffs and other restrictions that impede the access of the Latin American countries to world markets (to this end, the Government of the United States intends to make efforts in accordance with the provisions of article 37 (a) of the Buenos Aires Protocol⁷), and of ensuring fulfilment of international commitments with respect to the maintenance of the *status quo*.

⁶ Fish meal, castor oil, meat extract and meat meal, for which either reductions of tariff duties or elimination of quantitative restrictions might be forthcoming.

⁷ The provision referred to establishes that the Member States of the OAS should make individual and united efforts with the aim of achieving the "reduction or elimination, by importing countries, of tariff and non-tariff barriers that affect the exports of the Members of the Organization, except when such barriers are applied in order to diversify the economic structure, to speed up the development of the less-developed Member States or to intensify their process of economic integration, or when they are related to national security or to the needs for economic balance".

It likewise establishes the commitment to give joint consideration to possible systems of general non-reciprocal preferential treatment for the exports of manufactures and semi-manufactures of the developing countries, with a view to improving the conditions of Latin America's export trade. This implies an appreciable change in the previous opposition of the United States Government to the establishment of such a preferential system.

With the exception of the provision just referred to, the measures laid down in chapter III of the Declaration of the Presidents do not signify a conceptual advance but merely reaffirm aims that had already been established in various recommendations adopted at the first session of UNCTAD, and in commitments assumed by the developed countries in the framework of GATT. The measures included in chapter III were undoubtedly selected because they seemed to be the ones that best lent themselves to joint consideration and decision at the highest policy level and offered the greatest possibility of implementation.

The first step in initiating the joint action referred to in chapter III of the Declaration would be to define the meaning and scope of the commitments undertaken and to identify specific areas or points where they would lend themselves best to immediate- or short-term action. Moreover, it would be necessary to consider what institutional machinery would be suitable for effectively implementing those measures and for carrying out the task, individually or jointly. For this purpose a distinction should be made between the machinery required for applying measures within the inter-American system and the machinery for joint or co-ordinated action by the Latin American countries and the United States vis-à-vis third countries or groups of countries or in international organizations, in defence of Latin America's foreign trade interests.

In other words, it appears to be essential that, in accordance with the letter and the spirit of the Declaration, the United States should set an example and point the way to the rest of the developed countries by taking the steps that they would be required to take to carry out such joint action.

Statements by various high-level officials indicate that the United States Executive is intending to continue along the path of tariff liberalization started at the Geneva negotiations, despite the repercussions that such a policy may have on national economic structures. According to these statements, the United States economy

should abandon its previous tendency to adopt protectionist measures despite the market disruptions that would result from increased imports of certain products, and should apply a policy of adapting to foreign competition. This attitude is of great significance, since it means that in United States official circles it is admitted that the possible repercussions of trade liberalization measures should not constitute an obstacle to their adoption. Interest has likewise been shown by the Senate in improving and broadening the provisions of the 1962 Trade Expansion Act in order to provide Federal aid to American firms affected by the tariff concessions to other countries.

The scope of the proposed amendments to the Trade Expansion Act of 1962,⁸ however, extends far beyond the objective of facilitating the adoption of adjustment assistance measures on

⁸ Title III of the Trade Expansion Act of 1962 establishes that, upon the filing of a petition by any firm or group of workers, the Tariff Commission shall make an investigation to determine whether "as a result in major part of concessions granted under trade agreements, an article is being imported into the United States in such increased quantities as to cause, or threaten to cause, serious injury to the domestic industry producing an article which is like or directly competitive with the imported article". In carrying out this investigation, the Tariff Commission "shall take into account all economic factors which it considers relevant, including idling of productive facilities, inability to operate at a level of a reasonable profit, and unemployment or under-employment". However, in order to determine the eligibility of firms or groups of workers to apply to the Government for adjustment assistance, the investigation made by the Tariff Commission must show (a) that tariff concessions are the major cause of the increased imports, and (b) that such increased imports have been the major factor in causing the alleged damage or injury.

In practice, the conditions of eligibility have proved to be unduly stringent, owing to the difficulty of singling out tariff concessions as the major cause of the increased imports, and these increased imports in their turn as the major cause of injury to the industry concerned. Consequently, consideration is being given to the desirability of amending the Act so as to facilitate recourse to Government assistance on the part of firms or workers affected by tariff concessions. To that end, it is proposed that the Tariff Commission shall determine that serious injury or threat of injury exists:

(a) In the case of a firm, when "increased imports have contributed or are contributing in any substantial degree to a declining volume of domestic production, regardless of other influencing factors"; or when "the ratio of imports to domestic production exceeds 10 per cent during the calendar year immediately preceding the initiation of the Tariff Commission investigation";

(b) In the case of workers in a firm or sub-division thereof, when the condition mentioned in the foregoing paragraph is fulfilled, or when "increased imports have contributed or are contributing in any substantial degree to a decline amounting to 5 per cent or more (in man-hours or wages paid) of direct labour employed by such firm or sub-division".

behalf of firms or groups of workers injured by increased imports effected under the ægis of tariff concessions.

In the specific measures adopted by the United States in the trade policy field positive provision has been made for greater liberalization of international commodity trade, and at the same time decisions have been taken that represent a setback for the standstill principle.

Among the initiatives that might help to produce some improvement in the market for primary products are provisions designed to facilitate conditions of access to United States territory for certain raw materials. Thus in October 1966 import quotas for lead and zinc ores and concentrates, which had first been imposed in 1958, were abolished. In the same year the Government of the United States reduced import controls and duties on some oil-seeds and various ores and eliminated the 2 per cent duty on soluble coffee.⁹

Note should also be taken of the support given by the United States authorities to the fulfilment of the provisions of the International Coffee Agreement, particularly as it concerns the obligations of consumer countries. Moreover, with the aim of contributing, at the international level, towards a solution of the over-production problem that chronically threatens the world coffee market, the United States Government has declared itself in favour of the establishment of a

The proposed amendments to the Trade Expansion Act of 1962 go much further, however, than merely seeking to facilitate the adoption of measures to assist firms or groups of workers affected by increased imports due to tariff concessions. Under the 1962 Act, the President of the United States is not bound by the result of the Tariff Commission's investigation to take any specific action, but the amendment provides that, within sixty days of his receiving a report of the Tariff Commission which establishes that the import of any article is causing or is likely to cause serious prejudice to an industry, the President shall impose a duty, increase an existing duty, or impose any other restriction on imports of the article or product concerned.

⁹ While not directly linked with the elimination of this duty, the expansion of exports of soluble coffee from Brazil to the United States in 1967 has resulted in a serious controversy within the International Coffee Organization, reaching a point where the United States Department of State declared that it would not be able to support the renewal of the International Agreement if this problem could not be satisfactorily solved. The United States position, subsequently adopted by the Committee of European Coffee Associations, is based on the argument that Brazilian exports of soluble coffee receive an indirect subsidy through exemption from the export taxes which are imposed on coffee beans. (See G. Gordon Paton, *Complete Coffee Coverage*, New York, September 22, October 31 and November 15, 1967.) It should be pointed out that exports of soluble coffee are included in the quotas of producer countries (each pound of soluble coffee is considered to be equivalent to three pounds of coffee beans).

diversification fund within the framework of the Agreement. In the Punta del Este meeting of April 1967 the President of the United States proposed a loan of 15 million dollars for initial financing of such a fund.

More recently, the United States has applied a new policy with respect to cotton which has had an appreciable effect on the world market for this product and is of direct interest to various Latin American countries. Under the general law on food and agriculture promulgated in November 1965, a programme was set up to restrict United States cotton production in order to reduce the surplus which has long been typical of this market. A decision was taken to reduce the acreage planted by 30 per cent, starting with the 1966/67 crop year, and to authorize direct subsidies and price guarantees only to producers who would grow other crops on part of their land. This policy brought about a marked decrease in United States production—from 15 to 9 million bales between 1965 and 1967—and therefore of world production, and of stocks, of which the United States holds approximately half. It has apparently resulted in a better balance between world supply and demand, and in 1967 led to a slight recovery in prices, which in general had fallen in 1965/66.

The measures adopted by the United States with respect to sugar appear, on the other hand, to have been more unfavourable to the interests of the Latin American countries. In October 1965 an amendment to the 1948 Sugar Act was passed (to be in force from 1967 to 1971), reducing the relative share of foreign producers in the domestic market.

The new legislation raised from 5.81 to 6.39 million tons the part reserved for national producers in relation to a consumption of 9.7 million tons, at the same time reducing from 2.84 to 2.26 million tons the quota open to foreign producers, which had already been decreased from 3.53 million tons, or by as much as 526,000 tons. Even if it is taken into account that the new legislation reserves for imported sugar all domestic demand in excess of 9.7 million tons and up to 10.4 million tons (level of total consumption of the country in 1966) instead of only 35 per cent, as previously, the relative participation of the foreign suppliers has fallen from 39.8 to 38.6 per cent of total sugar consumption in the United States.

If a comparison is made with the pre-1962 situation, this development appears to be very unfavorable for foreign producers and in particular for Latin American producers, since it

reflects a tendency toward self-sufficiency in the United States market. In 1948 domestic production satisfied only 28.5 per cent of national consumption, a proportion that rose to 36.5 in 1962 and 42.5 in 1965. The relative share of Latin America in the main world sugar market declined during this period from 36.3 to 21 per cent, since the quota which had previously been reserved for Cuba has been only partially absorbed by the other producers of the region. It is clear that this policy, which tends through greater quantitative restrictions, to increase the share of national production to the detriment of the developing countries, conflicts with previous commitments undertaken by the industrialized countries, and the United States in particular, in both GATT and UNCTAD, with a view to facilitating access to their markets for products of special interest to developing countries.

Certain measures relating to meat imports are also contrary to the spirit of the commitments previously undertaken by the United States. In accordance with Act 88-442, in effect since 1 August 1967, imports of meat are subject to quotas restricting their volume to the 1959-63 levels. As it was considered that this legislation did not ensure sufficient protection for the national cattle industry, a member of the United States Senate presented a bill in October 1967 strengthening the controls applied to foreign meat. Particularly serious is the provision for extending these controls to other types of meat not covered by the present legislation.

This proposal was but one example of the new protectionist tendency that recently became apparent among private interests and representatives in the United States Congress, in total opposition to previous commitments and to the favourable attitude shown by the Government. In October 1967 the Senate considered various bills designed to limit imports of a whole series of products, including textiles, lead, zinc, petroleum products and steel. Another bill provides for the application of import quotas in all cases where customs duties may not be sufficient to ensure just protection for a United States industry. The restrictive provisions would go into effect almost automatically whenever there might be either a price difference between an imported and a United States product or a certain increase in imports of the product. The adoption of such legislation would constitute a dangerous threat to Latin American exports and a serious breach of commitments assumed by the United States within the framework of UNCTAD and GATT, and also of some of the concessions made in the Kennedy Round.

It is to be hoped that the United States Congress, with the support of the Government, will reject bills which, if adopted, would mean a return to a form of protectionism completely opposed to the present orientation of international trade policy. In any event, should the United States be forced in the future to impose import controls for balance of payments reasons, it would also have to ensure that such restrictions would not prejudice the trade interests of the developing countries.

The United States seems to have recognized that it is vital for this group of countries to increase their export earnings in order to speed up their economic growth, and that, in this respect, external aid can only be a supplementary factor. However the effective fulfilment of the general aims reaffirmed on various occasions by the United States authorities requires not only that they should do everything possible to prevent the adoption of legislation of the type now being submitted to Congress, but also that they should progressively eliminate the many and various obstacles still in the way of the expansion of Latin American products in the United States market.

The change in recent months in the attitude of the United States Government with regard to the essential problems of international trade might be the forerunner of a favourable and constructive attitude in the negotiations at the second session of UNCTAD, an attitude which is essential if the bases for a foreign trade that is more equitable and more beneficial for the developing countries are to be established.

3. THE POLICY OF THE UNITED KINGDOM AND OTHER DEVELOPED MARKET-ECONOMY COUNTRIES

The particularly unfavourable development of Latin American sales to the *United Kingdom*, which decreased slightly each year between 1963 and 1966, appears to be due, on the one hand to balance-of-payments difficulties and the slackening of the pace of economic growth in the United Kingdom which led to sluggishness in purchases from abroad and, on the other hand, to the effects of the institutional consolidation of the European Free-Trade Association (EFTA) which undoubtedly caused a shift away from purchases previously made in Latin American countries.

With regard to the United Kingdom's imports of meat from Latin America, the National Plan for 1965-70 could threaten the medium- and long-range export prospects, since it aims at an appreciable increase in the domestic supply of

meat over the next five years in order to meet a greater proportion of demand in 1970. The expansion of the production of cereals for fodder also figures in the Plan, and could likewise affect certain Latin American exports. In fact, this has already happened as a result of the increase in the United Kingdom's output of cereals in 1965 and 1966, which affected the implementation of the bilateral agreements concluded between the United Kingdom and its leading suppliers. It would be advisable for the United Kingdom Government to continue the meetings of the Meat Study Group—of which all the meat-exporting countries are members—in order to give those countries an opportunity to express their points of view and to prevent the new United Kingdom policy from damaging their trade interests too much. Action of this type would have helped to avert the application of unilateral restrictions, such as those which have recently been adopted against certain meat exports in consequence of outbreaks of foot-and-mouth disease in the United Kingdom, and which are damaging the traditional trade flows between Argentina and Uruguay and the British market.

The prospect of the entry of the United Kingdom into the European Economic Community is a further cause of concern for the Latin American countries, in view of the policy changes which that country would have to make should it be accepted as a full member. The most unfavourable effect would be a further reduction of export prospects for temperate-zone products which compete directly with Community products. A prerequisite for the success of the negotiations appears to be acceptance by the United Kingdom of the Community agricultural policy almost in its entirety. There is no doubt that in this case it would progressively increase its purchases from the Community. Moreover it can be expected that if there should be any possibilities of granting certain exceptions to the common rules, these would benefit the Commonwealth countries and not those of Latin America. Other negative effects for Latin America arising out of the entry of the United Kingdom into EEC could stem from the possible granting by the United Kingdom of the preferences now extended by the Community to certain African countries and from the concession of advantages to the Commonwealth countries as compensation in case of total loss of the Ottawa preferences.

Although it may be difficult to evaluate with precision the effects on the United Kingdom's trade with Latin America, it can be estimated

that the recent devaluation of sterling will have a negative effect on the exports of some Latin American countries, especially if account is taken of the decision of certain Commonwealth countries to devalue to the same extent. Thus the devaluation already decided upon by New Zealand will not fail to create disadvantageous conditions for Argentine and Uruguayan meats and wools in the British market.

While the position of *Japan* in recent years would appear to have been somewhat more favourable with respect to its trade with developing countries, this attitude has not had significant repercussions on Latin America owing to various problems, particularly shipping and insurance costs, which affect expansion of this traffic. The maintenance of some import restrictions, and in particular the State trade régime for certain agricultural products, has likewise limited growth possibilities for some Latin American exports.

Trade with *Canada* has been characterized by a very substantial increase, having more than doubled in the last five years, but it has not yet reached a level of real significance within the total trade of the region. Only a few Latin American countries have taken advantage of the possibilities of the Canadian market which are promising, taking into consideration the policy of this country and the concessions made in the Kennedy Round.

The *Scandinavian* countries have been those which, since the first session of UNCTAD, have shown most willingness to put the UNCTAD recommendations into practice. In recent years they have substantially liberalized trade in products which are of fundamental interest to the developing countries, not only by reducing import duties but also by reducing domestic taxes on certain consumer goods. Similarly, in the GATT negotiations, this group of countries was outstanding for its liberal attitude and understanding of the problems of the less developed countries.

The action taken by *Australia* in relation to the problems of the developing countries may likewise be described as highly positive, starting with the waiver it obtained in GATT so that it could establish a system of preferences in favour of the developing countries for a preliminary list of manufactures and semi-manufactures, the expansion of which has just been announced.¹⁰

The heterogeneous attitudes and policies which the industrialized countries have been assuming, without being linked to development levels or

¹⁰ Report of the Working Group adopted in 28 March 1966 (GATT, *Basic Instruments and Selected Documents, Supplement No. 14*, pp. 172 to 188).

balance-of-payments or other problems, demonstrate the importance of joint persuasive action by the developing world in order to open up new possibilities and create a favourable atmosphere for negotiations between both groups of coun-

tries. This moreover reaffirms the validity of the basic principles arrived at in UNCTAD and in GATT, and points to the ground still to be covered before their full acceptance and effective implementation can be achieved.

B. FULFILMENT BY DEVELOPED COUNTRIES OF COMMITMENTS ASSUMED IN RELATION TO THEIR TRADE WITH DEVELOPING COUNTRIES

When the secretariat document "Latin America and international trade policy" (E/CN.12/773) was considered at the twelfth session of ECLA (Caracas, May 1967), the secretariat was asked to list as many as possible of the cases of failure by the developed countries to comply with the principles and recommendations of UNCTAD and to meet commitments they had undertaken in GATT in relation to their trade with developing countries, with special reference to the commitments that directly affected the Latin American countries.

The preparation of such a list is actually a very complex and long-range task, the scope of which must be determined in the light of various aspects and problems, such as the definition of non-compliance; the nature and scope of the principles, commitments, recommendations, resolutions and declarations; their forms of implementation; and their total or conditional acceptance by all or some of the developed countries. Consequently, without prejudice to the possibility of carrying out a more detailed investigation at a later stage, it has been deemed necessary to examine those aspects and to point out cases which may be regarded as constituting a failure on the part of the developed countries to meet formal commitments with respect to products of interest to the Latin American countries, in the strictest sense of what may be understood to constitute non-compliance, namely, restrictions applied by the developed countries to those products which are contrary to the provisions of the General Agreement on Tariffs and Trade and are not covered by waivers, based upon notification of the GATT secretariat by the countries in question (see table 1).

The first problem to be considered is the nature, scope and binding power of the various forms that the commitments may assume. In general, the developed countries take the position that, in their trade relations with the developing countries, they are bound only by the legal commitments they assume under a treaty (i.e., under the General Agreement on Tariffs and Trade) and that even then the binding force of the commitments is limited by the

escape clauses to which they are usually subject. On the other hand, they maintain that the commitments which they have accepted in the form of principles, recommendations, declarations and resolutions, etc., are not mandatory, and that therefore their non-observance cannot be qualified as non-compliance.

However, the difference between one type of commitment and the other is more formal than substantive. When the developed and the developing countries agree that certain problems and obstacles are adversely affecting the latter's international trade and economic development, and have further stated that they are prepared to co-operate and to take active steps to contribute towards the solution or elimination of those problems and obstacles—as all the developed countries have done without exception—, they are in fact assuming a political responsibility and commitment, although they may not be solemnly bound by law to honour it.

For political commitments of this kind to be operative, they must, of course, be implemented through measures involving specific action programmes; in fact it is only through such programmes that the developed countries may fulfil their general commitments of a political nature to contribute effectively to solving the problems that impede the expansion of exports and the economic growth of the developing countries. This was fully recognized in the Ministerial Declaration made by the member countries of GATT in May 1961, in which it was agreed that the industrialized Contracting Parties should adopt a series of measures in relation to the trade problems of the developing countries (reduction to the minimum or elimination of the tariff and quantitative restrictions impeding access to markets as well as of the internal fiscal charges which affect the developing countries' exports limitations on the use of subsidies for the production or export of primary products, compliance with the principles and lines of approach already accepted in earlier resolutions of GATT and in FAO with respect to the sale of agricultural surpluses, etc.); that immediate measures would be taken to establish specific

Table

IMPORT RESTRICTIONS APPLIED BY DEVELOPED COUNTRIES INCONSISTENTLY
AND NOT COVERED BY WAIVERS ON PRODUCTS

<i>BTN</i>	<i>Products</i>	<i>United States</i>	<i>France</i>	<i>Federal Republic of Germany</i>	<i>Italy</i>
0201	Meat and edible offals of animals	—	—	—	—
	A Meat of bovine animals ...	—	—	—	—
	B Meat of sheep and goats ..	—	—	GQ or BQ ^b	—
	C Meat of swine	—	—	—	—
	D Meat of horses, etc.	—	—	—	—
	E Offals	—	—	GQ or BQ ^b	—
0202	Poultry and edible offals thereof	—	—	—	—
0205	Unrendered pig and poultry fat	—	—	—	—
	Unrendered pig fat alone	—	—	—	—
0206	Meat and edible meat offals of all kinds	—	—	—	—
	Ham, except tinned	—	—	—	—
	Pig meat and edible offals, dried or smoked	—	—	—	—
	Of sheep	—	—	GQ or BQ ^b	—
ex 0303	Crustaceans and molluscs	—	—	—	—
0401	Milk and cream, fresh	—	—	GQ or BQ ^b	{ R GQ (EEC) }
0402	Milk and cream, preserved, concentrated or sweetened	—	—	—	—
0403	Butter	—	—	—	—
0404	Cheese and curd	—	—	—	—
	"Cheddar" and "Colby" types	—	—	—	—
0405	Birds' eggs	—	ex R	—	—
0406	Natural honey	—	—	—	—
ex 0515	Dried shrimp	—	—	GQ or BC ^b	—
ex 0705	Dried leguminous vegetables ..	—	—	—	—
ex 0706	Manioc, arrowroot, sweet potatoes, and similar roots and tubers	—	—	—	—
0801	Bananas, fresh	—	R	—	GQ ^a
ex 0801	Pineapples, fresh and dried ...	—	R	—	—
0802	Citrus fruit, fresh or dried	—	—	—	—
	Oranges, tangerines, and grapefruit	—	—	—	—
ex 0806	Apples and pears, fresh	—	—	GQ or BQ	—
	Apples	—	—	—	—
	Pears	—	—	—	—
0810	Fruit preserved by freezing, not containing added sugar	—	—	—	—
	Pineapple	—	—	—	—
ex 0901	Coffee, whether or not roasted, excluding unroasted grain ...	—	R	—	—
1001	Wheat, etc.:	—	—	—	—
	Wheat	CQ ^b	—	—	—
	Meslin	—	—	—	—
1002	Rye	—	—	—	—
1003	Barley	—	—	—	—
1004	Oats	—	—	—	—
1005	Maize	—	—	—	—
1006	Rice	—	—	—	—
1101	Cereal flours excluding rice	—	—	—	—
	Of wheat	CQ ^b	—	—	—
1102	Cereal groats and cereal meal ..	—	—	—	—
	Of wheat	—	—	—	R
	Of rice	—	—	—	—

WITH THE PROVISIONS OF THE GENERAL AGREEMENT ON TARIFFS AND TRADE
OF EXPORT INTEREST TO LATIN AMERICA

<i>Benelux</i>	<i>United Kingdom</i>	<i>Austria</i>	<i>Sweden</i>	<i>Norway</i>	<i>Denmark</i>	<i>Canada</i>	<i>Japan</i>
—	—	—	—	—	GQ, DL	—	—
—	—	DL ^a	—	DL, MP	—	—	GQ
—	—	DL ^a	—	DL, MP	—	—	—
—	GQ (DA)	DL ^a	L ^a	DL, MP	—	—	GQ
Pr (-EEC) ^b	—	—	L ^a	DL	—	—	—
—	—	DL ^a	L ^a	DL, MP	—	—	—
—	—	—	L ^a	DL	DL	—	—
—	—	DL ^a	—	DL	DL	—	—
—	—	—	—	—	—	—	GQ
—	—	DL ^a	—	DL	ex GQ, DL	—	ex GQ
—	Pr (-STA)	—	—	—	—	—	—
—	—	—	L ^a	—	—	—	—
{ LD ^c }	—	—	—	—	—	—	—
{ Q (EEC) }	—	—	—	—	DL	—	GQ
—	{ L ^a }	DL ^a	—	A	—	—	ex GQ
—	{ Pr (DA) }	—	—	—	—	—	—
—	—	DL ^a	L ^a	A	LL, DL	—	ex GQ
—	ex BQ ^b	DL ^a	—	DL, GQ	DL	PP ^a	—
—	—	—	—	A, GQ	—	—	ex GQ
—	—	—	—	—	—	PP ^a	—
—	—	—	ex L ^a	ex DL, MP	DL	—	—
—	—	—	—	DL	GQ	—	—
—	—	—	—	—	—	—	GQ
—	—	—	—	—	—	—	—
—	—	—	—	DL	DL	—	GQ
—	GQ (DA)	—	—	—	—	—	—
—	{ GQ (DA) }	—	—	—	—	—	—
—	{ BQ (Cuba) }	—	—	—	—	—	—
—	—	—	—	—	—	—	GQ
SR ^a (-EEC)	GQ (-STA)	DL	—	—	LL, DL	—	—
—	—	—	—	DL, MP	—	—	GQ
—	—	—	—	DL, MP, SR	—	—	—
—	—	—	—	DL	ex DL	—	—
—	—	—	—	—	—	—	GQ
—	—	—	—	—	Q	—	GQ
—	—	DL ^a	—	—	LL, DL	L ^b	—
—	—	DL ^a	—	—	LL, DL	—	—
—	—	DL ^a	—	—	LL, DL	—	—
—	—	DL ^a	—	—	LL, DL	L ^b	—
—	—	DL ^a	—	—	LL, DL	L ^b	—
—	—	DL ^a	—	—	LL	—	—
—	—	—	—	DL, GQ	—	—	—
—	—	DL ^a	—	—	LL, DL	—	ex GQ
—	—	—	—	—	—	ex L ^b	—
—	—	ex DL ^a	—	—	ex LL, DL	ex L ^b	—
—	—	—	—	—	—	—	GQ
—	—	—	—	—	—	—	GQ

Table

<i>BTN</i>	<i>Products</i>	<i>United States</i>	<i>France</i>	<i>Federal Republic of Germany</i>	<i>Italy</i>
1105	Flour, meal and flakes of potato	—	—	ex GQ or BQ	—
ex 1106	Flour and meal of manioc, sago, etc.	—	—	—	—
1201	Oil-seeds	—	—	—	—
	Groundnuts	Q ^b	R	—	—
	Soya and others	—	R	—	—
1501	Lard and other rendered pig fat; rendered poultry fat	—	—	—	—
	Pig fat	—	—	—	—
ex 1502	Other unrendered fats and tallow	—	—	—	—
ex 1503	Lard stearin, oleostearin, lard oil	—	—	—	—
1507	Vegetable oils:				
	C Groundnut oil	—	R	—	—
	B Soya oil	—	—	—	GQ ^b
	Others	—	R	—	—
1601	Sausages and the like, of meat				
	Of sheep meat	—	—	GQ or BQ ^b	—
1602	Other prepared or preserved meat				
	Of sheep	—	—	GQ or BQ ^b	—
	Excluding poultry	—	—	—	—
	Of pig and poultry meat	—	—	—	—
	Of bovine animals and pigs ..	—	—	—	—
1603	Meat extracts and meat juices	—	—	—	—
1701	Beet sugar and cane sugar, solid	BQ ^a	ex R	GQ or BQ ^b	DL
1702	Other sugars	—	ex R	ex GQ or BQ ^b	DL
ex 1703	Molasses	—	R	CQ or BQ ^b	R
ex 1705	Flavoured molasses	—	—	GQ or BQ ^b	R
2001	Vegetables and fruit, prepared or preserved by vinegar	—	R	ex GQ or BQ (-EEC)	—
2002	Vegetables prepared or preserved otherwise than by vinegar ...	—	R	ex GQ or BQ	—
	Tomato purée, canned	—	—	—	—
2003	Fruit preserved by freezing, containing added sugar	—	L	—	—
2005	Fruit purée and fruit pastes ..	—	R	ex GQ or BQ (-EEC)	ex DL (-EEC)
2006	Fruit otherwise prepared or preserved	—	R	GQ or BQ	—
	Canned grapefruit	—	—	—	—
2007	Fruit juices and vegetable juices	—	ex R	ex GQ or BQ (-EEC)	ex DL
	Fruit juices	—	—	—	—
	Tomato juice	—	—	—	—
2102	Instant coffee	—	R	—	—
ex 2104	Tomato sauce	—	—	—	—
ex 2107	Other food preparations	—	—	GQ or BQ	R
2205	Wine of fresh grapes	—	ex R	GQ or BQ ^c	{ C GQ (EEC) }
2206	Vermouths and other wines ...	—	—	—	—
ex 2301	Flours and meals of meat, offals, fish and the like, unfit for human consumption	—	—	—	—
2401	Unmanufactured tobacco	—	R	—	—
2402	Manufactured tobacco	—	R	—	—
	A Cigars and cheroots	—	—	—	—
ex 2601	Tungsten ore	—	—	—	—
ex 2710	Gas oil, fuel oil and raw oil, in containers of less than 300 l.	—	—	—	—

1 (continued)

<i>Benelux</i>	<i>United Kingdom</i>	<i>Austria</i>	<i>Sweden</i>	<i>Norway</i>	<i>Denmark</i>	<i>Canada</i>	<i>Japan</i>
—	—	—	—	DL	LL, DL	—	GQ
—	—	—	—	DL	LL, DL	—	GQ
—	—	—	—	—	GQ	—	GQ
—	—	—	—	—	—	—	—
—	—	—	—	DL	ex DL	—	—
—	—	DL ^a	—	—	—	—	—
—	—	GQ ^a	—	—	DL	—	—
—	—	—	—	—	DL	—	—
—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	GQ
—	—	—	—	—	—	—	GQ
—	—	DL ^a	—	DL	GQ	—	GQ
—	Pr (—STA)	—	—	—	ex GQ	—	—
—	—	—	—	—	—	—	—
—	—	DL ^a	—	—	—	—	—
—	—	—	L ^a	DL	—	—	—
—	—	—	—	—	—	—	GQ
—	—	DL ^a	—	ex DL	—	—	—
—	—	GQ	LL	—	LL, DL	—	GQ
GQ ^b	—	ex GQ	—	—	LL, DL	—	ex GQ
ex GQ ^b	—	—	—	—	LL, DL	—	GQ
—	—	—	—	—	LL, DL	—	GQ
GQ ^b	—	—	—	—	—	—	—
—	—	—	—	ex DL	—	—	—
—	—	—	—	ex DL	—	—	—
—	—	—	—	DL	—	—	GQ
—	—	—	—	—	—	—	—
—	—	—	—	DL	ex GQ	—	GQ
—	—	—	—	ex DL	—	—	GQ
—	—	—	—	—	—	—	—
—	—	—	—	ex DL	ex GQ	—	GQ
—	GQ (DA)	—	—	—	—	—	—
—	—	—	—	—	ex GQ	—	—
—	ex GQ (DA)	ex GQ	—	DL, GQ	—	—	GQ
—	—	—	—	—	—	—	GQ
—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	GQ
—	—	—	—	A, GQ	—	—	ex GQ
—	—	ex GQ	—	—	Q	—	GQ
—	—	ex GQ	—	—	Q	—	GQ
—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	GQ
—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—
—	{ GQ (DA) }	—	—	—	—	—	—
—	{ BQ (Cuba) }	—	—	—	—	—	—
—	—	—	—	—	—	—	GQ
—	—	—	—	—	—	—	BQ

Table

BTN	Products	United States	France	Federal Republic of Germany	Italy
3501	Casein, caseinates and other casein derivatives; casein glues	—	ex L	—	—
	Unhardened casein for use in food production	—	—	GQ or BQ ^a	—
4102	Bovine cattle leather and equine leather	—	—	—	—
4103	Sheep and lamb skin, leather ..	—	—	—	—
ex 4103	Patent leather and metallised leather	—	—	—	—
4415	Plywood	—	L	—	—
ex 4801	Paper and paperboard	—	R	—	—
5305	Sheep's or lambs' wool or other animal hair, carded or combed	—	L	—	—
5307	Woollen yarn, not put up for retail sale	—	R	—	—
	Excluding stiffened yarn	—	—	LL ^a	—
ex 5310	Woollen yarn, put up for retail sale	—	—	LL ^a	—
ex 5311	Woven fabrics of wool or fine animal hair	—	R	LL ^a	—
5501	Cotton, not carded or combed ..	GQ ^b	—	—	—
ex 5503	Cotton waste, not carded or combed	GQ ^b	—	—	—
ex 5504	Cotton, carded or combed	GQ ^b	—	—	—
ex 5509	Other woven fabrics of cotton ..	—	—	LL ^a	—
5710	Woven fabrics of jute	—	R	GQ ^a	—
ex 6002-05	Gloves, socks, woollen garments, knitted	—	R	LL ^{a, d}	—
ex 6101-04	Outer and under garments ..	—	—	—	—
ex 6106 and 6110	Collars and scarves, except knitted	—	R	—	—
ex 6402	Footwear with leather soles	—	—	—	—
ex 6405	Parts of footwear	—	—	—	—
7301	Pig iron, cast iron and spiegeleisen, in pigs, blocks, lumps and similar forms	—	R	—	—
ex 8441	Sewing machines, not for domestic use	—	R	—	—
ex 8445	Machine tools for working metals	—	—	—	—

Sources: GATT, *Notifications of import restrictions applied inconsistently with the provisions of GATT and not covered by waivers on products of export interest to developing countries* (COM.TD/W/60), July 1967. Information for the United States was obtained from GATT document L/2568, Add. 6 (March 1966); for France, from GATT documents COM.TD/W/19 (March 1966) and L/2817 (July 1967).

Symbols: A: Administrative restriction; L: Licensing; DL: Discretionary licensing; LL: Liberal licensing; MP: Minimum price system; Pr: Prohibited; Q: Quota; GQ: Global quota; BQ: Bilateral quota; R: Restriction (method unspecified); SP: Special price permit required; SR: Seasonal restriction; (-STA): Applicable to imports from other than sterling area countries; (DA): Applicable to imports from the dollar area.

Note: This list of restrictions is not complete, since it covers only restrictions reported in the sources mentioned. In addition, the list refers only to some

products of special export interest for Latin America which were selected on the basis of the following documents: UNCTAD, *Informe sobre articulos cuya exportación ofrece interés para los países en desarrollo* (TD/B/C/2/20, March 1967); GATT, *Products notified as being of export interest to less-developed countries—Note by the Secretariat* (COM.TD/23, June 1966); *Memorandum de las Misiones Latinoamericanas ante la CEE* (February 1966).

FOOTNOTES BY COUNTRIES:

United States:

^a Justified by the provisional protocol.

^b Justified by article XI, 2 (c) of the General Agreement.

Federal Republic of Germany:

^a Applies to all countries, except the European, EEC Associate countries (Cyprus, Kenya, Malta, Sierra Leone, Uganda, Jamaica and Trinidad and Tobago).

action programmes and, where feasible, final dead-lines for the progressive reduction and elimination of obstacles to exports of the developing countries; and that procedures would be established for notifying and revising action taken by the Contracting Parties to implement the programmes agreed upon.

The Programme of Action, adopted at the GATT ministerial meeting held in May 1963, was precisely oriented in this way, establishing various measures in favour of the products of interest to the developing countries which the industrialized countries had to take (maintaining the standstill, gradual reduction of customs barriers which had to be lowered by at least 50 per cent over the next three years, complete liberalization of tropical products by 31 December 1963, elimination of quantitative restrictions within a period of one year, or before 31 December 1965 at the latest, and reduction and elimination of internal fiscal charges, likewise by 31 December 1965). However, the conclusions and resolutions of this ministerial meeting did not have the full support of the Ministers of the industrialized countries; those of the European Economic Community approved in principle the general aims of the Programme of Action and declared that they were prepared to do all they could to further the growth of the developing countries' trade but did not support the Programme itself on the grounds that it was insufficient. The Ministers of most of the other industrialized countries, in their turn, made various reservations and gave various interpretations of the Programme of Action which considerably limited the scope of its measures.

Apart from disregarding the commitment assumed in the Ministerial Declaration of May 1961,¹¹ their attitude shows that when an attempt is made to translate general commitments to the developing countries into action programmes which set up goals to be reached within specified periods of time, conflicts of interest between the developed countries generally prevent them from reaching an agreement. When,

¹¹ Nor does the new part IV of the General Agreement provide for an action programme or programmes to be set up in accordance with the Ministerial Declaration; basically it does little more than reiterate some of the aims and measures of a general nature agreed upon in the Declaration, without indicating concrete steps or goals that would guarantee their implementation. In article XXXVII of part IV, wherein certain commitments are given legal force (although subject to an escape clause that makes them for the most part inoperative), consultative procedure is established as specified in the Declaration, for Contracting Parties which may consider that some of the provisions of the article have not been complied with.

on the other hand, the trade problems and obstacles are those of the industrialized countries themselves, they generally find a way of settling their differences and coming to an agreement, as in the case of the Kennedy negotiations, when the "package deal" permitted a last-minute solution of serious differences of opinion between the developed countries that threatened to wreck the negotiations. In addition, before adopting concrete measures and specific action programmes involving their trade with the developing countries, they usually insist on these measures being accepted by the other countries (or the fulfilment of certain conditions by the other developed countries). Faced with the difficulty of taking joint action in this field, in the vast majority of cases the countries are unwilling to act unilaterally.

Among the commitments of a political type in the field of international economic relations, those that are outstanding are the principles and recommendations adopted at the first session of UNCTAD, which are binding on the developed countries that accepted them. Since most of these recommendations, including some which, by virtue of their scope, are extremely important,¹² were adopted without opposition, all the developed countries are bound by them and their non-observance consequently implies non-compliance with a commitment.¹³

The assumption that such recommendations constitute commitments for the countries that accepted them is confirmed by the very fact that some developed countries (and in certain cases developing countries as well) abstained from voting or voted against numerous principles and several recommendations, obviously because they were not prepared to assume the commitments that such principles and recommendations entailed. It follows that they entered into the commitments involved in the principles and recommendations to which they assented and therefore accepted the obligation to carry them out.

No time-limits, goals or other concrete forms of implementation are established for the measures that the developed countries would have to take in accordance with such recommendations, that is to say that there are no specific action

¹² Recommendations A.II.1, relating to international commodity arrangements and removal of obstacles and expansion of trade, and A.III.4, on guidelines for tariff and non-tariff policies in respect of manufactures and semi-manufactures from developing countries.

¹³ In the same way the Declaration of the Presidents of America constitutes a political commitment to fulfil its aims and implement the measures specified in it. In this case the commitment is all the stronger for having been undertaken by Chiefs of State.

programmes and that, on the contrary, it is stated that the measures should be adopted or applied "at the earliest possible date", "as far as possible", "if possible", etc. Without these limitations and safeguards, many recommendations would probably not have been accepted by an appreciable number of developed countries—as in the case of the GATT Programme of Action in May 1963—and there would have been even less likelihood of their acceptance if an attempt had been made to fix time-limits and establish a real action programme. However this does not detract from the binding nature of these recommendations or the obligation to comply with them. It may be assumed that if they were accepted, it was with the intention to comply with them effectively "to the fullest extent possible". The question is, therefore, not whether such recommendations constitute legal commitments but rather of verifying to what extent they were complied with and if everything possible was actually done in this regard. If not, this would mean that there has not been compliance, at least with the spirit of the commitment assumed in accepting the recommendation.

This situation repeats itself in a very similar way in the new part IV of the General Agreement since the fact that the principles, aims and commitments provided in it have a formal legal framework makes little difference. In effect, just as in the case of the UNCTAD recommendations, the measures or provisions that must be complied with by the developed Contracting Parties in accordance with article XXXVII of part IV do not make up, as already pointed out, a specific action programme. The obligation assumed by these parties is that of complying with such provisions "to the fullest extent possible"—and although this is explained as meaning "except when compelling reasons, which may include legal reasons, make it impossible", it may be supposed that only the existence of "compelling reasons" justifies non-compliance with the recommendations which, with similar safeguards, have been accepted by the developed countries in UNCTAD. There remains, of course, the problem of defining what is to be understood by "compelling reasons", and of verifying their existence in specific cases.

Until such time as specific action programmes are established to implement the political and legal commitments¹⁴ assumed by the developed

¹⁴ As will be indicated later, the establishment of these programmes through multilateral negotiations between developed and developing countries should be the main aim sought by the latter in the various forums in which they participate. This is the only way of ensuring effective compliance with the different commit-

countries in UNCTAD, GATT, or other international forums, it will be very difficult, if not impossible, to identify concrete cases of non-compliance.

Such non-compliance may be identified without much difficulty when the commitment consists in refraining from adopting certain measures, as in the case of the standstill commitment. It can also be identified where a provision exists prohibiting the maintenance of any type of restriction (e.g., article XI of the General Agreement, on the "general elimination of quantitative restrictions"). In those cases, it is feasible to identify and list the measures that have been adopted or that continue in force despite those commitments. But when the commitment is to adopt certain measures, non-compliance takes the form of omission; and unless those commitments are sufficiently specific, as in article XI, or time-limits and other procedures have been established for their implementation, it is impossible to determine and list specific cases of non-compliance, particularly if the commitment is to comply with certain provisions "to the fullest extent possible".

Such is the case with the commitments established in the UNCTAD recommendations and in article XXXVII of the General Agreement whereby the developed countries would—to the fullest extent possible—reduce or eliminate tariff and non-tariff restrictions on trade in products of interest to developing countries, internal fiscal charges which adversely affect consumption of those products, etc. In order to list cases of non-compliance, it would be necessary to determine, for each commodity, what charges and other restrictions on imports or consumption imposed by the developed countries were in force at the time of accepting the commitment, and compare them with those in force at the present time. To obviate this problem, it might be possible to identify cases in which developed countries have reduced or abolished charges and other restrictions or internal taxes on some of those products and to consider that, since those were the cases in which measures had, in fact, been adopted in accordance with the provisions of the commitment, there had been non-compliance with the remainder.

There would still be the problem of verifying whether or not such non-compliance was justified, that is, whether the countries had really complied "to the fullest extent possible" or

ments already assumed by the former or the realization, in the form of concrete measures, of other aspirations of the developing countries.

whether, in the words of article XXXVII of the General Agreement, "compelling reasons" had actually prevented them from reducing or eliminating charges and other restrictions in every case where they had failed to do so. This would require machinery for consultation and comparison, which is envisaged in the same article. Another problem involved in identifying actual cases of non-compliance with the commitments assumed by developed countries in relation to their trade with developing countries is how to distinguish between non-compliance as such, in the strict sense of the term, where a waiver¹⁵ has been obtained previously, and cases where non-compliance would be justified by recourse to some explicit or implicit escape clause (e.g., restrictions imposed on the grounds of market disruption).

The first group includes import restrictions imposed in opposition to GATT provisions and not covered by waivers, normally called "residual" restrictions. Those restrictions therefore constitute well defined and identified cases of non-compliance with commitments; they are indicated in documents prepared periodically by the secretariat of GATT on the basis of notifications from the Governments of the countries actually applying them, and are limited to those indicated in table 1 (affecting products considered to be of special interest to the Latin

¹⁵ A waiver is used in GATT to exempt a Contracting Party from complying with one or several of the obligations it has assumed by virtue of the provisions of the General Agreement, e.g., to maintain or adopt certain quantitative restrictions or to impose higher customs duties than those agreed on in the negotiations. It is granted for limited periods—though frequently renewed on expiry—and is subject to certain other conditions. An example which might be cited is that of the restrictions imposed by the United States on imports of certain agricultural commodities, in respect of which it obtained a waiver by the Decision of the Contracting Parties of 5 March 1955. In accordance with this decision, the Government of the United States must present an annual report on those restrictions, for consideration by a working group of the Contracting Parties, which decides whether or not the waiver is to be renewed. The report must indicate any change or elimination in respect of restrictions imposed the previous year, the restrictions in force, the reasons why they are still applied (including restrictions not covered by the waiver) and the steps taken to solve the problem of agricultural surpluses. Such restrictions, in the form of import regulations, affect various products such as wheat and products thereof, cotton with a certain length of fibre, groundnuts and some processed milk products. Other products, such as American-type cheese and frozen cream, were added on 30 June 1967. As can be seen this waiver has been in force for twelve years despite all efforts to end it; in other words the waiver has in fact become a means of maintaining restrictions indefinitely, and in some cases of intensifying and extending them to new products, although many of the original restrictions have been eliminated or reduced.

American countries). However, there may be compelling reasons for certain Governments to maintain those residual restrictions, and a group of experts might objectively examine those problems, thereby making it possible to identify suitable forms of collaboration with a view to abolishing such restrictions.

Therefore, the list of restrictions in table 1 covers a very limited field, which would be considerably extended if it were to include other restrictions imposed by developed countries on imports of commodities of interest to the Latin American countries, which are authorized by waivers or "legitimized" through recourse to safeguard clauses interpreted and applied unilaterally by the developed countries (whose justification should therefore be examined on a multilateral basis). But besides this, there are other vast fields that should be examined in relation to the non-compliance with commitments assumed by the developed countries, which would entail long and complex work, e.g., non-compliance with the standstill commitment and, in particular, non-compliance through failure to adopt measures which the developed countries had undertaken to adopt in relation to the reduction and elimination of tariff and non-tariff restrictions and internal taxes, abolition of production or export subsidies, disposal of surpluses and reserves, etc., affecting products of interest to developing countries. The basic problem here is to determine what justification there is for recourse to the various escape or safeguard clauses which in one way or another qualify those commitments.

As a first step in the process of consultation and comparison required for more accurate identification of cases of non-fulfilment of commitments on the part of the developed countries, especially undertakings to reduce and eliminate as far as possible import barriers against products of special export interest for developing countries, the appended table indicates the various tariff and non-tariff restrictions applied by the major industrialized countries to products regarded as currently or potentially of interest to the countries of Latin America. These restrictions should be jointly examined, product by product, by the two groups of countries with a view to determining whether "compelling reasons" have existed and still do exist for not reducing or eliminating them, and to reaching agreement upon a procedure for ensuring the attainment of the objective in question.

In making this examination, priority should be given to restrictions established or increased after the adoption of the standstill commitment.

With regard to the residual restrictions shown in table 1 a commitment should be adopted to eliminate them within a fixed and relatively short period of time, except in cases where, prior to the expiry of the time limit, a waiver is granted on the grounds that their elimination is admitted to present basic difficulties.¹⁶

In respect of the commitments assumed by developed countries vis-à-vis the countries with centrally planned economies, in particular those based on the recommendations of the first session of UNCTAD, it is still harder to identify specific cases of non-fulfilment. The difficulty is due mainly to the nature of the instruments used by the socialist countries for the control of their foreign trade, and therefore to the type of measures it was recommended that they should adopt to promote trade with developing countries, and also to the kind of information that would be needed for a satisfactory evaluation of the extent to which such measures have been implemented.

For example, recommendation A.II.1, adopted at the first session of UNCTAD, provides that the developed centrally planned economies should, *inter alia*, "refrain from taking any measures which would adversely affect the expansion of imports from the developing countries", and should "take duly into consideration the trade needs of the developing countries when fixing the quantitative targets in their long-term economic plans and concluding long-term agreements and contracts", so that "their imports of primary products and semi-processed products from the developing countries" should steadily increase, and "should constitute a proportion of growing importance in their total imports". Clearly, it is extremely difficult to ascertain whether these recommendations have been complied with, unless such background information is available as the development

¹⁶ A similar proposal, relating to residual restrictions, was presented by New Zealand at the twenty-fourth session of the Contracting Parties of GATT (November 1967).

programmes and import plans of a large number of countries, a list of the agreements they have drawn up with developing countries, an account of the patterns and terms of those agreements, etc.

For want of such information, and of sufficiently detailed statistical data for a product-by-product evaluation of trends in the socialist countries' imports from developing countries, the ECLA secretariat has been unable to embark upon a substantive analysis of the degree of compliance with those or other recommendations. In the circumstances, all that can be done is to echo the concern expressed by the developing countries in the introduction to the Charter of Algiers with respect to the following points: (a) "no progress has been made by developed socialist countries on the recommended transferability of credit balances held with them by developing countries"; (b) "the wide disparity between domestic selling prices of goods imported by socialist countries from developing countries and the import price of such goods creates unfavourable conditions for increases in consumption and import of such goods from developing countries".

For effective evaluation of the degree of fulfilment of commitments assumed by the socialist countries, a multilateral consultation procedure would be even more necessary than in the case of the developed market economy countries for the purposes of regularly reviewing the measures adopted by the centrally planned economies in order to increase and diversify their imports from developing countries, improve the prices and encourage the consumption of developing countries' products, facilitate the transfer of credit balances held by developing countries, etc. To that end, the socialist countries should furnish full first-hand information on the various matters to be reviewed, and the proceedings should be directed not so much towards consideration of the actual measures themselves as towards evaluation of the results achieved.

C. PROBLEMS RESULTING FROM PROCEDURES FOR APPLYING ESCAPE CLAUSES

In the previous section it was pointed out that substantial progress in the fulfilment of legal or political obligations assumed by the developed countries in their trade relations with the developing countries cannot be expected until the international community establishes specific action programmes. It was also stated that escape or safeguard clauses which explicitly or implicitly condition the scope and degree

of obligation of such commitments often made it easier for countries not to comply with them. Hence, independently of, or parallel with, the establishment of action programmes, or in the programmes themselves, it is necessary to define the circumstances in which the clauses may be invoked and to modify procedures for applying them, in order that they may cease to impede access of products of the developing

countries to the markets of the developed countries.

It is useful here to examine two types of escape clauses.¹⁷ On the one hand, there are the escape clauses provided in connexion with contractual obligations and referring to concrete situations, the utilization of which may require a waiver or authorization of the other interested parties in each case, involving a specific and temporary abolition of the commitment assumed, or some procedure for prior notification or consultation, or other provisions. Such are the escape clauses contained in articles XI, XII and XIX of the General Agreement on Tariffs and Trade, which relate to import restrictions on agricultural commodities as a means of protecting domestic production, to restrictions for balance of payments reasons, and to the total or partial suspension by a Contracting Party of a tariff concession granted on a product when imports of that product cause internal market disruption (i.e., when they take place in quantities or under conditions that may cause, or threaten to cause, serious injury to national producers of similar or competitive products).

Although there have been cases of abuse in the application of these escape clauses, which affect possibilities of access to the markets of the developed countries for products of special interest to the developing countries, these are the exception rather than the rule.

On the other hand, much more serious problems result from another type of escape clause which is in more general use, since such clauses condition compliance with almost all commitments entered into by the developed countries in various forums in connexion with their trade relations with the developing countries. These clauses tend to be formulated vaguely and in general terms, such as the obligation to comply with commitments "to the fullest extent possible" or "as soon as possible". Since their application depends on unilateral interpretation and application by the developed countries, even in cases where more or less concrete situations are referred to—such as existing or po-

¹⁷ The types and cases of escape clauses mentioned here do not cover every situation in which recourse is had to escape measures. For example, restrictions have been imposed on imports on the grounds that "social dumping" would result from the low wage levels and other labour conditions in exporting countries. It would also be necessary to determine whether the unwarranted application of health, security and other provisions such as those mentioned in articles XX and XXI of the General Agreement on Tariffs and Trade actually implied recourse to an escape clause, on account of being disguised restrictions.

tential market disruption—, it is a prerogative of the importing country to judge whether these situations actually exist, and to decide on the nature and scope of the restrictions that should be imposed in order to correct them. Although the clauses themselves may constitute the indispensable means of safeguarding legitimate economic interests, their most questionable aspect is precisely their unilateral character, since it gives the industrialized countries the opportunity of taking independent action not subject to any controls.

Under these conditions, the escape clauses may be used for the purpose of evading or considerably limiting compliance with the commitments, thereby losing a large measure of their effective value and in many cases even becoming inoperative. This problem is particularly serious in connexion with commitments to improve conditions of access for products of interest to developing countries. An example of this is provided when the commitment is to reduce and eliminate "to the fullest extent possible" or "as soon as possible" the tariff and non-tariff barriers to imports of those products in the developed countries, as established in article XXXVII of part IV of the General Agreement and part II of recommendation A.II.1 adopted at the first session of UNCTAD. In these cases, the failure to adopt such measures implies tacit use of the escape clause, and, despite the fact that such an act of omission is less obvious than the use of other escape clauses (adoption of new restrictions or intensification of those already existing), it nevertheless has equally negative effects from the standpoint of improving conditions of international trade for the developing countries.

These considerations do not constitute a condemnation of escape clauses *per se*. They may be inevitable and necessary in situations where fulfilment of a commitment comes up against warrantable difficulties or has caused significant problems either for the economy as a whole or for some important sector, and it seems unlikely that the developed countries would be willing to assume certain commitments without them. However, by definition, they should be used only in exceptional and duly substantiated cases, since they must not be assumed to constitute an expedient for evading compliance with a commitment. Otherwise, the commitment would be meaningless. Hence the necessity of making the use of each escape clause dependent on certain conditions, defining as precisely as possible the circumstances in which it may be invoked and, above all, establishing procedures

and machinery which will ensure its adequate interpretation and application.

A more precise definition of the circumstances in which these clauses might be invoked would help to avoid any problems resulting from the vague or excessively broad formulation of some of them. However, this characteristic is due to the essentially general nature of the commitments involved. Therefore, the proposed aim can only be achieved in most cases by defining the commitments more precisely through the establishment of specific action programmes for their effective implementation. Even if this were done, the problem would not be completely solved unless, in addition to a sufficiently precise indication of the circumstances in which escape clauses might be invoked, objective criteria were defined and agreed upon and adequate machinery established for determining whether those circumstances really existed in each case. This problem would thus be raised with respect to escape clauses relating to more or less concrete situations, such as the existence of market disruption.

The problem of escape clauses might be largely overcome by modifying the existing procedures for their application. This is true with respect to the vague and general formulation of escape clauses as well as the lack of objective criteria for determining whether or not they may be legitimately invoked. Modification of these procedures is the most urgent measure that should be taken and one which consequently offers the most important and immediate possibilities of achieving results.

As mentioned earlier, the most questionable aspect of the escape clauses is their unilateral character, which permits developed countries to interpret them and invoke them without any outside control, thereby lessening the efficacy of the commitments concerned. This procedure should be replaced by a multilateral consultative and supervisory mechanism for verifying in each case whether or not there were reasons for resorting to the escape clause and, if so, for determining the nature, scope and duration of the restrictions imposed. As regards the commitment to take measures such as the reduction and elimination of import barriers for products of interest to the developing countries, the machinery suggested would make it possible to prove whether the developed countries had complied with it to the fullest extent possible or whether compelling reasons had prevented them from doing so.

The establishment of a mechanism of this type is proposed in the Charter of Algiers and is also provided for in article XXXVII of the General Agreement. Although in the first stage action might be limited to consultations on specific cases of recourse by developed countries to escape clauses and the consideration of claims presented by developing countries regarding the former's failure to comply with previously accepted commitments or recommendations, at a later stage it would be necessary to arrange that the decisions of the consultative machinery should be binding. In this way, recourse to escape clauses would be subject to a procedure similar to that followed in the General Agreement, in connexion with, for example, those contemplated in articles XI and XII, for which a waiver must be obtained in each case. According to this procedure, the competent body would decide whether or not a country was justified in resorting to an escape clause—involving either commission or omission—and, if it was, this body would determine the nature, scope and duration of the restrictions that could be applied or that could be maintained in cases of temporary suspension in connexion with commitments to reduce or eliminate trade barriers for products of interest to developing countries.

Restrictions applied by virtue of escape clauses, particularly those related to problems of market disruption, should likewise be temporary, and subject to progressive elimination within time-limits previously established through the consultative process; this should not prevent the developed country which is applying the restriction from granting compensation to the developing countries affected by it, particularly in cases of violation of the standstill commitment.¹⁸ This compensation might take

¹⁸ Paragraph 31 of the "Action Plan of Viña del Mar", which is included in the final report of the fifth annual Meetings of the Inter-American Economic and Social Council at the Expert and Ministerial Levels (Viña del Mar, Chile, June 1967), reads as follows: "At the request of the developing country or countries of the inter-American System that feel affected by a presumed violation of the international standstill commitments, CIAP will serve as a forum for consultation, with a view to finding a satisfactory solution for the interested parties. This action will not prevent the countries concerned from being able to resort to other appropriate international bodies to seek suitable compensation. CIAP will study existing international systems to determine damages that may be caused by such violations, and make recommendations to the next IA-ECOSOC meeting as to whether they should be strengthened, and the need for and feasibility of creating new arrangements for such purposes." (OEA/Ser.H/XII.14, p. 20.)

the form, *inter alia*, of granting concessions on other products.¹⁹

The establishment of procedures such as those indicated for controlling the use of escape clauses will call for a radical change in the traditional position maintained by the developed countries. Otherwise, the commitments which those same countries have accepted, both in GATT and in UNCTAD, would have no real value nor would there be any assurance of sufficient stability and continuity of the conditions of access to the markets of developed countries for the products of developing countries.

Until now the problem of the application of restrictive measures and that of controlling the use of escape clauses have arisen essentially in relation to conditions of access to the markets of developed countries for primary products of developing countries. However, they are acquiring increasing importance in relation to manufactured and semi-manufactured products and their solution is particularly urgent for the establishment of a system of general preferences in favour of these products.

Without new rules there is a serious risk that the industrialized countries, under pressure of internal interests and claiming situations of market disruption, may resort to restrictions in order to limit, or even eliminate, the margin of preference or the volume of goods imported under the preferential régime and that this will affect products for which the developing countries have been able to establish substantial export flows. The very fear of this risk would have an adverse psychological effect on industrialists and exporters in developing countries who would not feel encouraged to take full advantage of the opportunities offered by the preferential treatment, since they would not feel they could really rely on such treatment or on

¹⁹ The commitment to refrain from establishing or increasing customs duties or non-tariff restrictions on imports of products of special interest to the developing countries was accepted by the developed countries not only in recommendation A.II.1 of the first session of UNCTAD but also in article XXXVII of the General Agreement on Tariffs and Trade, and means that tariff and non-tariff restrictions for such products have been consolidated at the levels prevailing at the time that commitment went into effect. This represents a commitment similar to that arising out of the concessions granted in negotiations carried out in GATT, and although article XXXVII of the Agreement permits exemption from this commitment in cases where there may be "compelling reasons" that impede its fulfilment, such non-observance must conform to the provisions of article XIX of the Agreement, relating to withdrawal of concessions.

conditions of access to the markets of developed countries.

The success of the system of general preferences will consequently depend to a large extent on not leaving to the unilateral decisions of countries granting such preferences the interpretation and application of the relevant escape and market-disruption clauses. These should rather be subject to procedures for multilateral consultation, in which all interested parties can participate in examining the situations that might cause a country to resort to those clauses and in evaluating the corrective measures to be taken.²⁰

As indicated in the Charters of Tequendama and Algiers, a very important complement to the efficacious operation of this consultative mechanism would be the establishment of objective criteria for determining the existence of situations of market disruption. Although some developed countries pointed out in the UNCTAD Special Committee on Preferences that they considered it would be difficult to establish such criteria, there are precedents which would indicate that the problem is not insoluble.

In the Trade Expansion Act of 1962, which authorized the President of the United States to negotiate in the Kennedy Round, measures are laid down for facilitating adjustment to the new competitive situation facing industries affected by an increase in imports resulting from the concessions granted.

A further precedent may be found in resolution 173 (CM/I/III-E) of the Council of Ministers of LAFTA in which rules are established for products that have been the object of special concessions to the relatively less developed countries, in accordance with article 23 of the Montevideo Treaty.²¹ This resolution provides

²⁰ This procedure would be a way of applying effectively the provisions contained in article XXXVII of the General Agreement on Tariffs and Trade in relation to the fulfilment of commitments set forth in the same article and to the achievement of the aims set forth in article XXXVI. It would likewise be a way of carrying out the unified action referred to in article XXXVIII. It should moreover be pointed out that in the November 1960 Decision of the Contracting Parties, relating to the interpretation of article XIX of the General Agreement, it is recommended that the interested parties solve problems deriving from market disruption through "negotiations" instead of resorting unilaterally to emergency action.

²¹ This article contains an escape clause according to which the Contracting Parties may authorize any one of them to impose temporary restrictions on the imports of products originating in the Area and included in the liberalization programme.

that the Contracting Party interested in resorting to those restrictions should present a request accompanied by information showing that: (a) the projected measures would not mean a reduction in normal consumption; (b) imports from the Area would occur in such quantities and conditions that they would cause or threaten to cause serious injury to specified productive activities; and (c) such activities are of significant importance to the national economy.

The experience in GATT arising out of consultations related to article XIX of the General Agreement (which refers precisely to the appli-

cation of restrictions on specified products due to situations of market disruption) and that of the EEC and EFTA in the application of escape clauses motivated by similar problems could, without doubt, likewise provide useful data for determining objective criteria which might be used by the consultative body in order to determine the existence of market disruption situations.²²

²² The secretariat of ECLA is undertaking a study with the same objective, in accordance with resolution 272 (XII), approved by the Commission at its twelfth session (Caracas, May 1967).

D. RESULTS OF THE KENNEDY ROUND FROM THE STANDPOINT OF THE LATIN AMERICAN COUNTRIES

1. OBJECTIVES AND PRINCIPLES

The opening of the Kennedy Round in May 1964 aroused considerable and well-founded hopes of securing substantial improvements in the foreign trade conditions of the developing countries, particularly as regards access for their products to the markets of the developed countries. At the time of the adoption of the GATT Programme of Action at the Ministerial Meeting in May 1963, it had already been anticipated that there would be an opportunity to improve conditions of access in the course of the Kennedy Round.

This attitude was grounded, first, on the general objectives that had been established for the negotiations, which included not only sizable tariff reductions but also (in contrast with previous negotiations) the reduction or elimination of other non-tariff restrictions, and, secondly, on the fact that special rules and procedures had been agreed upon for the participation of the developing countries in the Kennedy Round, so that they might obtain the best possible results. The developed countries had reaffirmed on many occasions their desire to make a substantial contribution, through the negotiations in question, to the solution of the developing countries' problems.

Among the special provisions and regulations established in favour of the developing countries in the Kennedy Round, particular mention should be made of those designed to ensure that:

(a) Products of special interest to the developing countries should be eliminated from the developed countries' lists of exceptions to the linear cut;

(b) These same products should be included in the industrialized countries' lists of products subject to the selective-offer procedure;

(c) In the case of these products it might be possible for tariff cuts to exceed 50 per cent;

(d) Tariff concessions for products mainly supplied by developing countries, either individually or jointly, should be applied immediately, instead of being spread over a period of five years in accordance with the procedure generally applicable (application without phasing);

(e) The developed countries should have no opportunity of excluding products of special interest to the developing countries from their offers, during the final phase of the negotiations, by applying the principle of reciprocity among themselves;

(f) The contribution of the developing countries should be subject to the principle of non-reciprocity, this being understood to mean that a less-developed contracting party should not be expected to make an offer in the course of trade negotiations incompatible with its economic development needs, its financial situation and its foreign trade;

(g) Tariff and non-tariff barriers to the entry of tropical products should be eliminated to the maximum extent, while at the same time—in the view of certain developing countries enjoying preferences in the markets of particular industrialized countries—compensation should be accorded for the loss or reduction of those preferences;

(h) Special conditions of access to world markets should be established for exports of temperate-climate commodities, primarily by means of appropriate international agreements.

The GATT Committee on Trade and Development, at its eighth session (January 1967), examined the progress made in the Kennedy Round in relation to the interests of the developing countries, concentrating in particular on:

(a) Application without phasing, in favour of the developing countries, of all the concessions negotiated;

(b) The position of the countries signatories of the Yaoundé Convention with regard to special preferences.

The subject of the application of concessions without phasing had always been approached from the angle of the products of special interest to developing countries, on the basis of the most-favoured-nation clause. The industrialized countries in general had expressed their sympathy with this approach, "in principle". At the above-mentioned meeting of the Committee on Trade and Development, it was pointed out that application without phasing on these lines would benefit only the traditional export products of developing countries, and would be of little use in relation to a whole range of products, particularly manufactures, of which the developing countries were not the chief suppliers. It was finally suggested that all the concessions negotiated in the Kennedy Round should be subject to application without phasing, regardless of whether a developing country was the principal supplier or not.

It was obvious that the countries benefiting by the special preferences which EEC grants to the signatories of the Yaoundé Convention were unwilling to exchange them for the prospect of a general system of preferences. Their representatives insisted that they should be allowed compensation for the preferences they would lose and a reasonable length of time in which to make sure that the compensation in question matched or outweighed the advantages of which they would be deprived if they renounced the existing preferential margins. This not only affected the negotiations on the tariff side, in respect of the products enjoying preferences, but also undermined the possibility of making all the Kennedy Round concessions subject to application without phasing. Nor were the countries eligible for such compensation precisely identified.

2. EVALUATION OF RESULTS

From the standpoint of the developing countries, and in relation to the objectives established, the final results of the Kennedy Round fell short of expectations. Headway was made

in the elimination of tariff barriers, for some of the products exported by the developing countries, but in all other respects little or no progress was achieved. In a joint statement formulated at the close of the negotiations, the developing countries recorded exactly the same impression, adding that they were "not in a position to share, to the same extent, the satisfaction of the developed countries at the conclusion and the achievements of the Kennedy Round".²³

The results of the Kennedy Round can be evaluated according to different criteria. One way would be merely to determine the possible effect of the concessions accorded (in this case, tariff concessions) on trade flows; and another to attempt to draw up a balance sheet, by estimating, in accordance with certain hypotheses, the respective values of the concessions negotiated and of those on which agreement could not be reached. The simplest method is to show that, as against fairly substantial tariff concessions, satisfactory results were not obtained in such fields as the reduction and elimination of non-tariff barriers, the abolition of internal rates and taxes, the establishment of conditions of free access to markets for tropical products, the elimination of discriminatory trade régimes, etc., and thence to infer that in both quantitative and qualitative terms what was not done far outweighed what was. In the future a procedure may possibly be devised whereby each and all of the negative and positive features of the negotiations can be objectively evaluated.

In the meantime, to serve as a basis for discussion at the second session of UNCTAD, a method of evaluation that may be found useful is to weight the tariff reductions fixed for each product by the actual value of trade in that product during an earlier period, as has been done in the studies prepared by the UNCTAD secretariat and by GATT itself. If this method is applied, its limitations must be clearly recognized, since it gives only an approximate idea of the significance of the tariff cuts negotiated, and may lead to erroneous conclusions respecting their value, at least in the case of the developing countries.

Similarly this type of evaluation gives much more weight to products in which a considerable volume of trade already exists (whence it may be deduced that no serious problems are encountered regarding access to markets), but no

²³ See "Joint statement by the developing participating countries in the Kennedy Round negotiations" (GATT/994), Press Release, 30 June 1967.

clear picture is afforded of the possible effects of the concessions—or lack of them—on products for which the market is at present small or non-existent, with very difficult conditions of access, and in respect of which the developing countries are keenly interested in expanding their export trade.²⁴

A quantitative evaluation strictly confined to tariff concessions may be adequate for the industrial countries, in view of the amount of products involved in their reciprocal trade, the competitiveness of their industries and the fact that they control the application of non-tariff measures of all kinds, as well as transport facilities. In their case, the consolidation or reduction of a duty, however modest it may seem, represents a trade opportunity.

Where the developing countries are concerned, the true importance of the concessions must be measured in terms of the trade they are capable of generating. This is the consideration that really matters, although its validity as a yardstick is not absolute. Thus, (a) there are no means of predicting how far it will be possible to take real advantage of the improved conditions of access; (b) even if substantial improvements are achieved in the field of tariffs, they may be offset or rendered inoperative by the maintenance of other restrictions—quantitative or disguised—which are acquiring steadily increasing importance; (c) a number of other

²⁴ A typical example is the 50 per cent reduction agreed upon in the case of certain duties which are applicable to specific mineral products, but which have been suspended for some years. This result can easily be assessed in quantitative terms as a concession, but in actual fact it does not represent a new concession at all, since the duty has been suspended so that the supply requirements of industries in the developed country concerned can be satisfactorily met.

A quantitative evaluation also shows distorted results in those cases where apparently considerable tariff concessions are in practice of little or no significance. For example, the European Economic Community levies a 4 per cent import duty on fish meal, a product of particular interest to some Latin American countries; the 50 per cent cut implied lowering this duty to 2 per cent, but the 2 per cent reduction will be effected in five annual instalments of 0.4 per cent, from 1968 to 1972. There will certainly be a 50 per cent cut, in line with the optimum procedure negotiated, but its effect on trade will not be exactly spectacular. Yet according to a quantitative evaluation the volume of trade benefited would amount to tens of millions of dollars.

The best plan would be to exclude from any estimate those traditional products for which regular access to the markets of industrialized countries was already assured (regardless of the incidence of tariff duties), and for which concessions are mainly nominal, and to include those products which were not the object of direct negotiation because their share in trade in 1964 was so modest, but which have benefited by the application of the most favoured-nation clause.

factors would have to be taken into account. These include the extent to which the incidence of the tariff or the real protection it affords is modified at the different stages of processing by virtue of concessions granted in respect of the raw material and the finished product; real or potential export opportunities; the elasticity of supply and demand; competition from third countries—including the developed countries themselves; competition from synthetic substitutes; and indirect concessions obtained through the most-favoured-nation clause.

The evaluation made by the UNCTAD secretariat²⁵ has the merit of attempting to achieve the fusion of quantitative and qualitative elements without which a mere list of tariff reductions is meaningless. It endeavours to show how the concessions negotiated may improve conditions of access to the developed countries' markets for exports from the developing countries. The analysis is focused on those countries or areas (the European Economic Community, Japan, the United Kingdom and the United States) which absorb a major proportion of the exports in question. It is rightly pointed out that in the case of many agricultural commodities the elimination of non-tariff barriers (quantitative restrictions, internal consumption taxes, variable import duties, production and export subsidies, etc.) is a more urgent and significant objective than tariff reductions, so far as improving conditions of access is concerned. In respect of the manufactures and semi-manufactures group (including processed agricultural products), attention is drawn to the gradual escalation of tariff structures in the industrial countries according to the degree of processing undergone by the product, as well as to the fact that the nominal duties on manufactures and semi-manufactures do not reflect the real degree of protection, which is usually quite high. Cases in point are such products as leather goods, cotton textiles, vegetable oils, petroleum products, prepared and preserved foods, wood veneers and plywood, and rubber manufactures, all of which are of export interest to developing countries.

The following are among the main conclusions reached in the preliminary evaluation prepared by UNCTAD.

(a) The negotiations implied a significant reduction of tariff barriers for exports shipped to the four leading markets (EEC, Japan, the United Kingdom and the United States). On an average the tariff cuts exceeded those secured

²⁵ See "The Kennedy Round: preliminary evaluation of results with special reference to developing countries" (TD/6 and Supplements 1, 2 and 3).

in previous tariff negotiations, since in the case of manufactured goods they averaged approximately 36 per cent. The operation as a whole will facilitate the expansion of trade among industrialized countries and may indirectly improve demand for products exported by developing countries.

(b) The groups of products for which substantial tariff reductions were obtained are characterized by advanced techniques and capital intensity. Where chemical products are concerned, the increase in trade opportunities may sharpen the trend towards the substitution of synthetics for primary products. It therefore seems likely that unless other trade policy measures are adopted in the field to correct such tendencies, the Kennedy Round will contribute to a further decline in the developing countries' share in world trade.

(c) The tariff reductions obtained for the primary products of industrialized countries exceeded, on an average, those benefiting the primary products of developing countries.

(d) Generally speaking, products of interest to the developing countries were not accorded substantial reductions, and in some cases remain subject to quantitative restrictions and other non-tariff barriers.

(e) The industrialized countries did not agree to take any steps towards modifying the support policies applied in favour of their agricultural production, or the fiscal measures affecting products from developing countries.

(f) The "effective protection" of transforming industries, although reduced in some cases, is still a major impediment to imports of manufactures and semi-manufactures from developing countries.

(g) No change was introduced in existing preferential régimes as a result of the negotiations.

(h) No progress was made with regard to the reduction or elimination of non-tariff barriers.

The GATT secretariat evaluated the results of the Kennedy Round with a view to "assisting Governments to assess the significance of the reductions on individual items in terms of the trade involved".²⁶ The analysis covered six industrial markets (EEC, Japan, Sweden, Switzerland, the United Kingdom and the United States) whose purchases account for 90 per cent of the aggregate exports of the developing countries. A study was made of 367 tariff items,

²⁶ See GATT documents COM.TD/46 and COM.TD/48.

which embrace almost all the products exported by the developing countries, excluding cereals, meat and dairy products. Some of the conclusions reached in connexion with the seven commodity sectors analysed are presented below.

Tropical products. Although real progress was made as a result of the negotiations, "there is no doubt that the final results were below the expectations of at least a number of developing countries". This outcome is ascribed to the maintenance of preferential margins for a few privileged suppliers; to the protection of domestic production against competition from tropical products; and to policies based on fiscal considerations.

Processed foodstuffs. While recognizing that substantial tariff reductions were obtained, the GATT secretariat points out that many items in this group are basically subject to non-tariff restrictions which hinder their access to industrial markets.

Non-ferrous metals and products thereof. Of the trade in respect of which concessions were granted, 63 per cent was already duty-free before the Kennedy Round. Tariff reductions were made for the remainder, but in many cases the application of the duties concerned had already been suspended.

Cotton yarn and fabrics. Tariff cuts, which were sizable in some industrial markets, were made contingent upon the maintenance of the quantitative restrictions established under the Long-Term Arrangement Regarding International Trade in Cotton Textiles until 30 September 1970.

Clothing. Tariff duties on products in this category varied from 15 to 25 per cent *ad valorem*. Concessions were obtained for 60 per cent of this trade, which now falls within the 10.1 to 20 per cent range.

Other textiles. The proportion of zero duty rates increased from 13.5 to 58 per cent, mainly owing to the concessions granted by Sweden and the United States.

Leather and leather manufactures. In this sector the 50 per cent linear cut was applied on a large scale.

3. FACTORS LIMITING THE RESULTS OF THE KENNEDY ROUND

In the report of the GATT *Ad Hoc* Group on Assessment of Kennedy Round Results,²⁷ mention is made of the grounds on which the developed countries failed to take fuller action

²⁷ See GATT document COM.TD/49, 2 November 1967.

on particular products or groups of products of interest to the developing countries. The causes adduced, which to a large extent conflict with the regulations and objectives already established in favour of the developing countries prior to the opening of the negotiations, may be summed up as follows.

(a) *Fiscal considerations*, accounting for the maintenance of import duties and internal fiscal charges on tropical products of interest to developing countries, such as coffee, tea, cocoa and bananas;

(b) *Protection*, especially for agricultural, primary and industrial products, to which the duties applied are progressive according to the degree of processing;

(c) *Problems deriving from the preferences* established in favour of a number of developing countries;

(d) *Problems relating to the adoption of non-tariff measures* in respect of products for which tariff or other trade barriers are not the principal factor regulating trade. This point shows how seriously limited is the efficacy of negotiations of the traditional type, including the Kennedy Round, since they are almost entirely confined to the tariff sector, in which the industrial countries have a strong interest and are in a position to agree upon commitments;

(e) *Joint action*, which made a great many of the benefits accorded to the developing countries conditional upon unanimous agreement among the industrialized countries. This meant that a number of good intentions on the part of one or a few of the latter could not bear fruit. For example, it was impossible to secure general agreement that the Kennedy Round concessions should be applied without phasing in favour of the developing countries, even in respect of products of particular interest to them;²⁸

(f) *Technical problems* stemming from the fact that the tariff nomenclatures of certain developed countries did not differentiate between products which are produced in developing countries and those emanating from developed countries;

(g) *Concessions apt to benefit developed countries* because of the small share of the

developing countries in world trade in certain products;

(h) *Problems of reciprocity* between developed countries and of negotiating balance. In some instances, an item was excluded from offers because the principal suppliers were countries not participating in the negotiations. This happened in the case of crude petroleum and to some extent affected Latin America's negotiations;

(i) "*Sensitive*" products: a number of products of particular interest to developing countries were considered to be "sensitive" items by certain developed countries.

The Kennedy Round demonstrated the need for the Latin American countries to co-ordinate their action more closely in order to increase its efficacy and strengthen their bargaining power, as was recommended at the meetings of CECLA. For example, small as was the number of Latin American countries that participated directly in the negotiations, it would have been extremely useful for them to have presented a consolidated list of offers, to be formalized subject to a number of concessions from the industrialized countries. This seemed feasible in the case of the Latin American countries which had no conflicting interests. The examples afforded by the European Economic Community and the Nordic countries,²⁹ among those in the industrialized group, give some idea of how bargaining power is increased when concerted action is taken.

4. RESULTS OF THE KENNEDY ROUND IN RELATION TO THE DEVELOPING COUNTRIES IN GENERAL AND THE LATIN AMERICAN COUNTRIES IN PARTICULAR

The significance of the results of the Kennedy Round for trade among the industrialized countries is beyond question, but the negotiations fell far short of fulfilling the aims and meeting the expectations of the developing countries in general and the Latin American countries in particular. This is especially true of agricultural products—which are of vital importance to the developing countries—since most of the problems affecting them remained unsolved. Owing

²⁸ In the initial phase of the Kennedy Round, Denmark, Finland, Norway and Sweden negotiated separately, but in view of their lack of bargaining power, especially vis-à-vis the European Economic Community, Japan, the United Kingdom and the United States, they changed their tactics and negotiated on a joint basis, as the Scandinavian Group. The results of the tariff concessions showed that negotiating *en bloc* multiplied their opportunities of trade expansion.

²⁹ Ten developed countries (Canada, Czechoslovakia, Denmark, Finland, Japan, Norway, Sweden, Switzerland, the United Kingdom and the United States) submitted lists of concessions for application without phasing, some being conditional upon parliamentary approval and others on similar action by other developed countries (see GATT document L/2912).

to the existence of discriminatory systems of preferences and the support they obtained from the developed countries associated with such systems, complete liberalization of trade in tropical products was not secured. Similarly, almost the whole of the sector comprising temperate zone agricultural products—mainly foodstuffs, in particular cereals, meat and dairy products—was relegated to a secondary position, because the industrial countries failed to reach agreement with respect to the negotiation of non-tariff concessions. This view is borne out by the limited scope of the agreement on cereals, in comparison with what was originally programmed, and the non-ratification of the meat agreement between EEC and the Argentine Republic.

In the case of manufactures, and also in that of certain primary products, the negotiations were conducted mainly among the "major negotiators"—i.e., among the developed countries themselves—, so that the liberalization measures benefited chiefly those manufactures and semi-manufactures which constitute a substantial proportion of trade among the countries in question, while many products of particular interest to the developing countries were left on one side. The tariff reductions negotiated related mainly to lines of production characterized by advanced technology or high degrees of capital-intensity, i.e., products that the great majority of the developing countries are not in a position to export. The cuts agreed upon in respect of chemical products, which are also exported mainly by the developed countries, may speed up the displacement of natural by synthetic products. In the last analysis, all this is liable to accelerate the expansion of the developed countries' reciprocal trade, without giving the developing countries any real share in the increase achieved, except perhaps in the case of those at relatively more advanced stages of economic growth.

Thus, the gains of the developing countries were purely marginal, and were contingent upon the indirect benefits deriving from the most-favoured-nation clause.³⁰ Although, on the one hand, the concessions granted to one another by developed countries are also applicable to the developing countries, and in some instances may signify a substantial improvement in conditions of access to markets and may enlarge

³⁰ This was the case of one Latin American country in connexion with a type of wool it exports to the United States market, because a prior agreement had not been reached between the United States and Australia, its leading supplier.

the whole export potential of certain products, the value of many of the concessions accorded by developed countries in response to requests submitted by the Latin American countries, and by the developing countries in general, is considerably lessened by the fact that through the most-favoured-nation clause they are automatically extended to the other developed countries.

From the broader standpoint of the opportunities they afford for increasing the export earnings of the developing countries through real improvements in conditions of access for their products, the concessions will have to be weighed against the persistence of non-tariff barriers, the application of differential maritime freight rates, and other factors hindering access to the industrial countries' markets.

The Latin American countries that took part in the Kennedy Round³¹ have evaluated its results by quantifying the concessions and weighting them by the value of their exports in 1964. With a few exceptions, they are at one in considering that the concessions obtained for their traditional export lines and the prospects opened up for certain products of potential export interest are favourable.

On the other hand, from the standpoint of real opportunities for new trade, the conclusion must be that little or no substantial change has been achieved. A study of the lists of concessions obtained by Latin American countries shows that in many instances they are concentrated in a few products currently exported to the markets of the industrialized countries, so that tariff reductions or bindings may exert no decisive influence on the expansion of exports. Conversely, in the case of a number of products that were not taken into account in the direct negotiations because they were exported only sporadically or in very small quantities, and for which no evaluation can be attempted because no direct concessions were granted to Latin American countries, the trade potential of some developing country may possibly be improved through the operation of the most-favoured-nation clause.

It can be asserted, in short, that the demands of the Latin American countries were not met in respect of: (a) complete liberalization of trade in tropical products; (b) a substantial reduction of non-tariff barriers for temperate zone agricultural products; (c) tariff cuts of 50 per cent or over for manufactured goods; (d)

³¹ They were: Argentina, Brazil, Chile, the Dominican Republic, Jamaica, Nicaragua, Peru, Trinidad and Tobago, and Uruguay.

immediate application (i.e., without phasing) of all the Kennedy Round concessions in respect of both tradition and potential trade; (e) elimination of special preferences, particularly those favouring tropical products.

The foregoing is confirmed by a comparison of tariff duties and non-tariff restrictions on imports of products of interest to Latin America before and after the Kennedy Round (see annex I). On the basis of this comparison and of data prepared by UNCTAD, a list of the most important products of particular interest to the Latin American countries is also presented, with an indication in each case as to whether there has been a real improvement in conditions of access to the markets of the developed countries (see table 2).

5. FUTURE ACTION

In the Charter of Tequendama, the Latin American countries set forth the measures that should be adopted by the developed countries in order to improve conditions of access to their markets both for primary products and for manufactures and semi-manufactures exported by the developing countries. In the Charter of Algiers, the same group of countries urged that the developed countries should adopt a set of measures directed towards those ends, with emphasis on the immediate application in favour of all developing countries (i.e., without phasing) of the concessions agreed on during the Kennedy Round in respect of products of export interest to the developing countries; that the developed countries should state at the second session of UNCTAD that all concessions agreed on during the Kennedy Round for products of export interest to developing countries would be extended at the time of implementation to all developing countries, whether or not members of GATT, without reciprocity; and that, on the basis of the evaluations of the Kennedy Round being prepared by the UNCTAD and GATT secretariats and those prepared by governments themselves, the New Delhi Conference should identify "all outstanding issues for further negotiations". In these negotiations all developing countries should be allowed to participate if they so desired, and it should be understood that neither the most-favoured-nation clause nor the principle of reciprocity should be applicable in the case of developing countries.

In this context, the forthcoming session of UNCTAD will obviously have to concentrate on the negotiation of specific action programmes covering the various fields in which no definite

progress was made during the Kennedy Round. However, new tariff negotiations—at any rate of the type hitherto conducted—should not be immediately embarked upon, not only because it would be difficult to secure the full co-operation of all the developed countries just after the close of such long-drawn-out negotiations as the Kennedy Round, but also for other reasons connected with the possible scope and coverage of the new negotiations.

In the manufactures sector, the potential adoption of a system of general preferences leaves only limited room for new tariff concessions. As regards primary commodities, there is a consensus of opinion in favour of the commodity-by-commodity approach, which would make it possible to identify in each individual case the nature of the barriers, their significance in relation to world trade flows, and the specific measures that might be adopted to remove them.

An essential objective of the New Delhi Conference should therefore be to establish the bases or principles and conditions for the negotiation of these specific programmes, to determine the time-schedule and procedures for their implementation, and to set up groups of experts to formulate, in accordance with clearly-defined terms of reference and within fixed time limits, such proposals as they might consider relevant for each product or product group in each of the fields where action is required.

In any event, it would at least be necessary for a study to be made—first by panels of experts and then through inter-country consultations—of the restrictions which are most difficult to eliminate. In the case of agricultural commodities, for example, consideration should be given to the question of how far the restrictions on temperate zone products are maintained by each individual developed country as an integral part of its over-all system for the protection of its agriculture, and to the possibilities of eliminating or reducing their incidence on products of special interest to the developing countries. The same procedure might be followed with regard to restrictions affecting industrial products or groups of products, in cases where their removal presents particular difficulties.

Similar action would have to be taken in respect of the standstill commitment, the determination of minimum percentage shares for the developing countries in the provision of supplies for the developed countries, the abolition of discriminatory preferences, the reduction and elimination of tariff and non-tariff restrictions and of internal taxes, etc.

Table 2

PRODUCTS OF EXPORT INTEREST TO THE LATIN AMERICAN COUNTRIES AND CONCESSIONS MADE DURING THE KENNEDY ROUND TO IMPROVE ACCESS FOR THOSE PRODUCTS TO THE MARKETS OF DEVELOPED COUNTRIES

<i>BTN classification</i>	<i>Main Latin American exporters</i>	<i>Major markets</i>	<i>Summary of action taken</i>
02.01A Bovine meat, fresh, chilled or frozen	Argentina, Mexico, Nicaragua, Uruguay	United States, EEC, United Kingdom	No action taken. No improvement in access to markets.
03.01 Fish, fresh, chilled or frozen (selected)	Peru, Trinidad and Tobago	United States	The United States abolished duties on two items of little importance; duties for tuna and sea herring were already zero. Although access to markets improved (except in the case of the United Kingdom, which made no concession), tariff barriers (high in some cases) still remain.
03.03 Shellfish, fresh, chilled, frozen, prepared or preserved	Brazil, Ecuador, Mexico, Panama, Venezuela, Guyana	United States	In the United States nearly all supplies already entered duty free; on the remainder, existing rates were halved. Same conclusion as for the previous item.
08.01A Bananas, fresh	Colombia, Costa Rica, Ecuador, Honduras, Panama	All	No action taken. No improvement in access. The three main markets with tariff barriers retain them at relatively high levels; the United States applies no duty, and in two markets (EEC and the United Kingdom) quota restrictions are also applied.
08.02A Oranges (excluding mandarines, tangerines and clementines)	Argentina, Brazil, Mexico	United States, EEC, United Kingdom	Limited improvement in access to the United Kingdom. All four markets continue to apply tariff barriers, in some cases at a relatively high level, which in EEC and Japan are combined with other restrictive measures.
08.02B Grapefruit	Mexico	United States (on a small scale)	Limited improvement in access to the markets of EEC, United Kingdom and United States. Japan and the United Kingdom retain quantitative restrictions in addition to duties.
09.01 Coffee (raw and roasted)	Brazil, Colombia, Costa Rica, El Salvador, Guatemala	All	All supplies already entered the United States duty free; improvement in access to the United Kingdom and Japanese markets. However, some relatively high duties remain, together with quantitative and other restrictions.

09.04	Pepper and pimento	Brazil, Jamaica, Mexico
10.05	Maize	Argentina, Brazil
12.01A	Groundnuts	Mexico
12.01G	Castor oil seeds	Ecuador, Paraguay, Peru
15.07	Fixed vegetable oils, etc. ^a	Argentina, Brazil, Paraguay
16.02	Other prepared or preserved meat	Argentina, Brazil, Paraguay, Uruguay
16.03	Meat extracts and meat juices	Argentina, Brazil, Paraguay, Uruguay
16.04	Prepared or preserved fish	Ecuador, Peru
17.01	Beet and cane sugar (solid)	Barbados, Cuba, Guyana, Dominican Republic

United States, EEC, United Kingdom	Limited improvement in access to the United States market; greater improvements in access to the United Kingdom and Japanese markets. No improvement in access to the EEC market, in which duties remain relatively high.
EEC, United Kingdom	Limited improvement in access to the markets of the United Kingdom and the United States, the latter being a minor importer; no action was taken by the EEC, in which maize is subject to a variable levy.
United States	No action taken.
EEC, United Kingdom	Imports into EEC already entered duty free. No action was taken by the United Kingdom. The only action taken was by the United States, which does not import this product.
EEC, United States, Japan	Access to the United States and Japan improved to some extent. Many nominal duties remained relatively high and "effective protection" of groundnut oil increased in Japan. Quantitative restrictions were retained in EEC, the United States and Japan.
United Kingdom, United States, Japan	The main improvements in access were to the United States and the United Kingdom, although in some cases duties were maintained on products of interest to Argentina and Brazil. More limited improvements in access to Japan and EEC. In some cases relatively high duties and quantitative restrictions remain.
EEC, United Kingdom, United States	Access to these markets was improved by abolition or reduction of duties.
United States	Improvement in access to the United States, although no action was taken on various types of sardines and tuna.
All, plus the Soviet Union	No improvement whatsoever. All markets retain either a combination of tariffs and quantitative restrictions or a system of variable levies.

<i>BTN classification</i>	<i>Main Latin American exporters</i>
18.01 Cocoa beans	Brazil, Ecuador
18.03 Cocoa paste	Brazil
18.04 Cocoa butter	Brazil
18.05 Cocoa powder, unsweetened	Brazil, Dominican Republic
18.06 Chocolate and other fruit preparations containing cocoa	Dominican Republic
23.01 Flour and meals of meat, offals, fish, etc.	Argentina, Chile, Peru
23.04 Oil-cake and other residues	Argentina, Brazil, Mexico
24.01 Unmanufactured tobacco	Dominican Republic

Table 2 (continued)

<i>Major markets</i>	<i>Summary of action taken</i>
United States, Japan	United States imports were already duty free. Improvements in access to the United Kingdom and Japan, which abolished existing duties. No improvement in access to EEC, in which internal taxes are applied in addition to duties.
United Kingdom, EEC, Japan	All-round improvement; "effective protection" reduced in EEC and Japan, and abolished in the United States and United Kingdom. Internal taxes, in addition to the tariff, retained in EEC.
All	All-round improvement; "effective protection" reduced in EEC, Japan and the United States, and abolished in the United Kingdom. Internal taxes, in addition to the tariff, retained in EEC.
United States	Access was improved. The United States halved its duty.
United States	Access was improved only to the United States market, in which "effective protection" of processing was reduced.
All	Access was improved to EEC, which still applies duties; imports into Japan and the United States were already duty free, but Japan still retains some quantitative restrictions.
EEC, United Kingdom, United States	Some improvement in access to the United Kingdom and the United States, which still apply duties. No improvement in the case of Japan, which also retains quantitative restrictions.
United States	Little improvement made. High tariff barriers still maintained.

26.01A and 26.01B		
Iron ore and concentrates and roasted iron pyrites		Brazil, Chile, Peru, Venezuela
26.01C		
Copper ore and concentrates		Chile, Peru, Nicaragua
26.01E		
Bauxite and concentrates		Dominican Republic, Guyana, Jamaica
26.01G		
Zinc ore and concentrates		Mexico, Peru
26.01H		
Tin ore and concentrates		Bolivia, Mexico
26.01M		
Tungsten ore and concentrates		Bolivia, Brazil
27.09		
Crude petroleum		Trinidad and Tobago, Vene- zuela
27.10		
Petroleum and shale oils, other than crude		Venezuela, Trinidad and To- bago
32.01		
Vegetable tanning extracts		Argentina
41.01		
Raw hides and skins		Argentina, Bolivia, Brazil, Uruguay
41.02		
Bovine leather		Argentina, Uruguay

All	All imports into the four main markets already entered duty free.
All	The United States reduced its temporarily suspended duty from 1.7 to 0.8 dollar cents per pound. This duty was suspended from 9 February 1966 to 30 June 1968. Imports to the remaining markets already entered duty free.
All	There were no duties in EEC, the United Kingdom and Japan. The United States abolished its duties, which had already been suspended.
United States, Japan	No improvement in access to the United States, the only country still applying duties.
United States, United Kingdom, Japan	No improvement, since imports were already duty free.
EEC, United States, United Kingdom	Improved access to the United States, which still applied duties. Quantitative restrictions retained by Japan.
EEC, United States, United Kingdom	No improvement in market access. Quantitative restrictions retained in the United States and EEC.
All	Slight improvement in access. Quantitative restrictions retained in EEC and Japan.
EEC, United Kingdom, United States	Slight improvement. Access to the United Kingdom market would be further improved if the American Selling Price system were abolished.
All	All remaining tariffs in the United States and United Kingdom were abolished, except for imports of certain bovine varieties into the United States. The bulk of imports into all main markets already entered duty free; EEC and Japan providing entirely duty-free access.
United Kingdom, EEC, United States	Access to the three markets was improved and the "effective protection" of processing was reduced. Duties of up to 20 per cent remain.

Table 2 (continued)

<i>BTN classification</i>	<i>Main Latin American exporters</i>	<i>Major markets</i>	<i>Summary of action taken</i>
41.04 Coat and kidskin leather	Mexico	United States	Some improvement in this market.
53.01 Sheep's or lambs' wool (not carded or combed)	Argentina, Uruguay	EEC, United States	Access was improved to the two markets (United States and United Kingdom) that still apply duties.
53.05 Sheep's or lambs' wool or other animal hair (carded or combed)	Argentina, Peru, Uruguay	EEC, Japan, United States	Only very limited improvement in access to one of the three markets that still apply duties (United States).
55.01 Raw cotton	Brazil, El Salvador, Guatemala, Mexico, Nicaragua, Peru	EEC, Japan, United Kingdom	Limited improvement in access to the United Kingdom. Imports already entered duty free into EEC and Japan. The United States is an exporter of this product, although it imports small quantities of extra-long fibre, mainly from the United Arab Republic.
57.04 Other vegetable textile, fibres, raw or processed (not spun)	Brazil, Haiti, Mexico	EEC, Japan, United States	Imports into EEC and Japan were already duty free, as well as most United States imports. Some improvement in access to the United States.
74.01 Copper matte, cement, copper, etc. (including refined and unrefined copper)	Chile, Peru	EEC, United Kingdom, Japan	Access was improved to the three markets (United States, Japan and United Kingdom) that still apply duties, and "effective protection" of processing was reduced, in varying degrees.
78.01 Unwrought lead	Mexico, Peru	EEC, United States, Japan	Access was improved only to Japan and the United Kingdom, the latter country importing almost exclusively from Australia and Canada.

Source: UNCTAD, "The Kennedy Round: preliminary evaluation of results with special reference to developing countries" (TD/6, Supp. 3).

^a Including groundnut oil, palm oil, palm kernel oil, coconut oil, cottonseed oil, sesame oil, sunflower seed oil, castor oil, soya bean oil, linseed oil, olive oil, etc.

With regard to the removal of non-tariff barriers, it should be recalled that in a document entitled "Programme for Expansion of International Trade. Obstacles to Trade in Industrial Products",³² the Director-General of GATT points out that the results of the Kennedy Round in respect of barriers of this type against trade in industrial products were relatively modest in comparison with those achieved in the tariff field, and notes that that is an area of great concern, which may grow in importance as the tariff reductions agreed upon in the Kennedy Round are implemented. He also suggests that

³² L/2893, 7 November 1967.

an examination of non-tariff barriers should certainly form part of the activities of the working groups proposed by GATT for individual sectors, and that governments should be invited to submit lists of non-tariff restrictions which they believe to have an adverse effect on their export trade.

Another possibility to investigate is that of negotiating the establishment of a time-schedule or series of deadlines for the fulfilment of commitments or recommendations designed to secure the gradual elimination of the various tariff and non-tariff restrictions applied by the developed countries to the developing countries' export products.

III. LATIN AMERICA AND THE SECOND SESSION OF UNCTAD

A. OBJECTIVES OF THE SECOND SESSION

Most of the problems affecting the external sector of developing countries, and the international trade and financial policy measures for overcoming them, are already sufficiently well identified. The 1961 Ministerial Declaration, the 1963 Programme of Action, the new part IV of the General Agreement on Tariffs and Trade and the Final Act of the first session of UNCTAD constitute in this respect a fairly detailed inventory of what has to be done.

Sufficient progress has been made in some respects to pass from the stage of formulating principles, commitments, recommendations and general declarations to the stage of implementing them through action programmes which would, as far as possible, establish specific targets and time-limits.

Multilateral negotiations between different groups of countries will be needed to establish such programmes. A fundamental objective of the second session of UNCTAD should therefore be to establish the basic principles and specific aims for such negotiations, and to decide on a time schedule and procedures for carrying them out. Little would be gained by resuming discussion of general questions of principle, or by adopting new recommendations or endorsing those already adopted, if that meant further postponement of action. The question is, therefore, to determine not what has to be done but how to do it.

It is not feasible to do this in all the areas covered by the agenda for the second session of UNCTAD, since in some insufficient progress has been made in the preparation of specific

proposals, even though the nature of the problems has been identified. The objectives of the second session of UNCTAD are more limited in those fields, because the action to be undertaken needs to be studied in greater depth and discussed more fully before specific negotiations can be undertaken. Consideration should be given at the session to the advisability of establishing groups of experts to carry out such studies and prepare reports, within a given time-limit and in accordance with fairly specific terms of reference, containing suggestions regarding the type of action needed, for subsequent consideration by government representatives in UNCTAD with a view to negotiating specific measures or programmes of action.

The best course in some cases would be to establish consultation machinery rather than action programmes—e.g., with regard to procedures for applying escape clauses—, or to draw up international agreements laying down minimum requirements in respect of standards of hygiene, quality, brands, containers, etc., and setting up arbitration tribunals to consider claims in respect of non-observance of those regulations.

As regards primary commodities, for example, there is no doubt that the work of the second session of UNCTAD in connexion with trade liberalization should not be confined to general recommendations. A more realistic approach that might yield immediate results would be to demarcate certain aspects of the general question of liberalization—e.g., tariff restrictions and internal taxes on imports of tropical commodities—, and request a group of experts or

the UNCTAD secretariat to work out specific proposals for the reduction or elimination of those restrictions and taxes. It would have to be understood that the proposed solutions would be negotiated on a certain date. A similar procedure might be adopted in the case of temperate zone commodities, for which the problem of trade liberalization is linked to that of the developed countries' existing protectionist policies; therefore, the most feasible solution seems to be to negotiate commitments guaranteeing a minimum participation in the markets of developed countries and in future increases in consumption.

There are various precedents which demonstrate the advantages of following this course. For example, with regard to the establishment of a preferential system in favour of exports of manufactures and semi-manufactures from developing countries, although the Group on Preferences of the UNCTAD Committee on Manufactures clarified many aspects of the problem, no specific proposals were put forward until a small group of government representatives assumed the task of preparing them. Supplementary financing offers another example. At the request of the Secretary-General of UNCTAD, the International Bank for Reconstruction and Development prepared a project for discussion by the Trade and Development Board and eventual negotiation at the second session of UNCTAD.

At the fifth session of the Trade and Development Board there was general agreement on the objectives of the second session of UNCTAD, and the various agenda items were grouped in three main categories: (a) items which simply provide information for the Conference (trade trends and a review of the general economic situation of the developing countries, progress achieved in implementing the previous recommendations, etc.); (b) items for which specific measures could be adopted, since they have already been sufficiently discussed; (c) subjects on which a similar degree of understanding has not been reached and for which the type of studies and research required to support specific proposals for action needs to be defined. This division does not imply any criteria with regard

to priority, but is simply meant as a practical means of enabling the Conference to concentrate on areas in which concrete results may be expected.

As a result of this grouping of topics, the President of the Trade and Development Board, at its fifth session, was able to stress the desirability of distinguishing the main "centres of gravity" or "points of crystallization" of the coming Conference. He said that in the primary commodities sector there had been general agreement that international action could be successful only by means of a commodity-by-commodity approach. This was true not only of the negotiation of international commodity agreements or arrangements, but also of the conclusion of other agreements such as those relating to trade liberalization, the creation, operation and financing of buffer stocks, and programmes for the diversification of production and exports. However, this approach did not imply, in principle, that consideration should not also be given to the guiding principles of commodity trade policy as a whole.

He said that progress had been made in discussing a system of preferences for exports of manufactures and semi-manufactures from developing countries. Consideration of this subject should lead to agreement because the developed countries were prepared to present the main outlines of such a scheme of preferences in favour of the developing countries. In this regard, he thought it advisable to draw up an over-all balance-sheet of the results of the Kennedy Round in order to determine the extent and effects of the concessions established for exports from developing countries, and the progress still to be made in respect of tariff and non-tariff barriers.

As regards financing, he said that the Inter-Governmental Group appointed to examine the proposals of the International Bank had made considerable headway in its discussions and had been authorized to report its findings direct to the Conference. It was not unreasonable to hope, therefore, that the Group would be able to submit a draft for negotiation at the coming UNCTAD session.

B. COMMODITY PROBLEMS AND POLICIES

1. IMPROVEMENT OF CONDITIONS OF ACCESS TO MARKETS

The problems discussed in the present section and the suggestions put forward for solving them converge upon a single point: the improvement of conditions of access to the markets of the developed countries for the developing

countries' commodity exports. At its first session, UNCTAD unanimously adopted a balanced set of recommendations (see the *Final Act*, annex A.II.1) whose ultimate objective is to ensure such an improvement in conditions of access. According to the first of these, "no new tariff or non-tariff barriers should be created

(or existing barriers increased) by developed countries against imports of primary products of particular interest to developing countries" (standstill); then come measures designed to secure fuller liberalization of trade through the reduction and elimination of customs charges, internal charges and revenue duties, and quantitative restrictions; lastly, attention is drawn to the various types of international commodity arrangements that can be made and to the importance of their role as appropriate instruments for promoting the expansion of trade and increasing the export earnings of the developing countries. Furthermore, the new part IV of the General Agreement on Tariffs and Trade establishes similar commitments, particularly in article XXXVII, which stipulates that "the developed Contracting Parties shall to the fullest extent possible—that is, except when compelling reasons, which may include legal reasons, make it impossible— . . . (a) accord high priority to the reduction and elimination of barriers to products currently or potentially of particular export interest to less-developed Contracting Parties, including customs duties and other restrictions which differentiate unreasonably between such products in their primary and in their processed forms; (b) refrain from introducing, or increasing the incidence of, customs duties or non-tariff import barriers on products currently or potentially of particular export interest to less-developed contracting parties; and (c) (i) refrain from imposing new fiscal measures, and (ii) in any adjustments of fiscal policy accord high priority to the reduction and elimination of fiscal measures which would hamper, or which hamper, significantly the growth of consumption of primary products, in raw or processed form, wholly or mainly produced in the territories of less-developed Contracting Parties, and which are applied specifically to those products".

Article XXXVII also establishes a consultation procedure (not so far brought into operation) to be applied whenever it is considered that effect is not being given to any of the foregoing provisions. Subsequently, article XXXVIII adds that "the Contracting Parties shall collaborate jointly, within the framework of this Agreement and elsewhere, as appropriate, to further the objectives set forth", and that they shall, in particular, "where appropriate, take action, including action through international arrangements, to provide improved and acceptable conditions of access to world markets for primary products of particular interest to less-developed Contracting Parties and to devise

measures designed to stabilize and improve conditions of world markets in these products, including measures designed to attain stable, equitable and remunerative prices for exports of such products".

Thus, the UNCTAD recommendations and the above-mentioned commitments assumed by the Contracting Parties of GATT are at one in according high priority to problems relating to the improvement of conditions of access to markets, which is the key objective of commodity policy. Nevertheless, no significant progress has been made in the implementation of these recommendations and commitments; on the contrary, in many cases measures have been adopted which manifestly violate both the spirit and the letter of the provision concerned, and which therefore represent a retrogression in market access conditions. Hence it is understandable that the Declaration of the Presidents of America should again raise the question of improving conditions of access to the markets of developed countries, echoing the terms of the recommendations and commitments already adopted in other discussion centres, such as UNCTAD and GATT, and re-emphasizing the imperative need to put those recommendations and commitments into effect.

Furthermore, the Charter of Tequendama, like that of Algiers, reaffirms the importance attached by the developing countries to the solution of market access problems. In the Charter of Tequendama, the subject of commodity problems and policies is introduced by a statement to the effect that "for the developing countries it is essential that, in the discussions and negotiations held at the second UNCTAD, the highest priority should be given to improving the conditions of access for the commodities which they export to the developed market economy countries and to the centrally-planned economy countries". The text goes on to suggest various measures which the countries members of the Special Committee on Latin American Co-ordination consider to be of basic importance in that connexion. They cover, *inter alia*, effective observance of the standstill commitment; the adoption of a programme of tariff and non-tariff liberalization and of programmes to discourage uneconomic production, in the developed countries, of products which compete with products originating from the developing countries, through the abolition of subsidies for the production and export of such competing products, and to secure total elimination by the developed countries of domestic taxes and fiscal surcharges applied to products of interest to the developing

countries; and provisions to guarantee the developing countries a minimum share in the market of the developed countries.

The terms of the Charter of Tequendama go beyond the mere reiteration by the Latin American countries of general recommendations as to the various measures that should be adopted by the developed countries in order to improve conditions of access to their markets for primary products (including those in processed and semi-processed form) from the developing countries. Stress is laid on the need for programmes to be adopted and consultation procedures established at the second session of UNCTAD with the aim of ensuring the effective implementation of such measures. On the other hand, it will obviously be impossible, save in a very few exceptional cases, for the Conference to embark upon negotiations concerning the specific forms the measures in question should take. The formulation of concrete programmes of action in each field will entail multilateral negotiations, which, if they are to be effective, should in principle be conducted product by product, or at least at the level of groups of products.

As has already been suggested, the basic objective of the second session of UNCTAD should rather be to reach agreement on the bases and scope of such negotiations, on the appropriate time and forum for conducting them, and on the establishment of groups of experts to draw up, in accordance with the terms of reference formulated and within fixed time limits, such specific proposals as they may deem apposite in respect of each product or group of products in each of the fields where action is called for. These proposals would then serve as a basis for the multilateral negotiations referred to above.

This product-by-product approach, which is in line with the consensus of opinion at the fifth session of the Trade and Development Board,³³ has undeniable merits. First, it makes it possible to identify the nature of the barriers in each case, and to determine their relative

³³ In his final statement at the session, the President of the Board, referring to the "centres of gravity" or "points of crystallization", said: "In the primary commodities sector there has been general agreement that international action can be successful only by means of a commodity-by-commodity approach . . . The very broad support for the commodity-by-commodity approach does not, however, appear to imply any opposition in principle to the idea that matters relating to international commodity policy should also be examined from the standpoint of general guidelines. This is true, for example, of the functions, operation and financing of buffer stocks . . . , market stabilization techniques, price policies, etc."

importance in world trade flows and the specific measures that might be adopted to remove them, thus reducing to its true proportions a task which would otherwise appear too complex. Secondly, it eliminates the over-all approaches and recommendations which, as has been seen, remain mere generalizations, and in essence make no new contribution to the solution of the problems in hand.

As regards the negotiation of international agreements, it was recognized many years ago that the product-by-product approach is the only method capable of producing satisfactory results, in view of the diversity of the characteristics and market problems of the individual products concerned. In extending the same procedure to other aspects of commodity trade, it should be borne in mind that although the product-by-product method is very useful at the stage of identifying problems and discussing possible measures (for example, in the field of liberalization of conditions of access), several products could be dealt with at once in the negotiation process, which would otherwise become unduly complicated and long-drawn-out.

In the following sections suggestions are put forward as to some of the specific forms of action that might be considered either in the discussion of programmes at the second session of UNCTAD, or by the expert groups, or in the course of multilateral negotiations on detailed methods of ensuring the effective implementation of commitments in the main fields where steps must be taken to improve conditions of access, namely: the standstill commitment; determination of the developing countries' minimum percentage shares in supplies for the developed countries; reduction and elimination of tariff and non-tariff restrictions and of internal taxes; and abolition of discriminatory preferences.

2. STANDSTILL

The various standstill recommendations and commitments accepted by the developed countries are of great importance in relation to the volume of exports of the developing countries, since their aim is to obviate the risk that through the tightening-up of existing restrictions or the erection of new barriers the share of the developing countries' products in their traditional markets—normally those of the industrialized countries—may be reduced. At the same time, the fulfilment of this aim is a point of departure for the pursuit of another, broader objective: that of improving conditions of access to the markets in question through the reduction

or elimination of the various existing types of barriers.

Nevertheless, many instances could be cited in which developed countries have adopted or are thinking of adopting³⁴ policies and measures which are at variance with both the letter and the spirit of the standstill recommendations and commitments. The countries concerned may be seeking to afford their domestic production a higher degree of protection, or to increase their degree of self-sufficiency and collect fiscal revenue, or to defend their balance-of-payments position, or again to increase their own share in the world market by displacing the non-subsidized exports of the developing countries. Broadly speaking, it is fair to say that, in practice, recent years have witnessed a setback rather than an improvement in the conditions of access for primary commodities to the markets of the developed countries, particularly in the case of certain products, such as sugar, meat and wheat.

Of greater importance, however, is the fact that an analysis of the scope of the standstill commitment and of the difficulties of checking, in many cases, whether it has or has not been complied with, suggests the need for an exact definition of its objectives in terms not only of measures but also of the desired effects or results, and for the establishment of implementation machinery that would ensure the achievement of the results in question. This need arises not only because under the present terms of the provisions their objectives are not properly defined, but also because the conclusion to be drawn from such an analysis is that even if the commitment as it stands were effectively fulfilled, it would not suffice to enable the developing countries' exports to maintain their foothold in their traditional markets and their share in future consumption increments in the markets concerned.

The share of temperate zone agricultural commodities and some mineral products is in fact being adversely affected and showing signs of diminishing—even without the establishment of new barriers or increases in the incidence of those already existing—not only as a result of the restrictions in force, but also owing to the competition put up by similar exports from

other developing countries, supported sometimes by subsidies for domestic production designed to secure a higher rate of self-sufficiency, and sometimes by a cut-price policy deliberately applied with a view to cornering markets.

In the case of tropical agricultural products, the problem assumes a different guise. The expansion of exports of most tropical products is hampered by the existence of internal taxes and surcharges—at both the national and local levels—in the developed countries, which sometimes push up final consumer prices unduly, and thus discourage the growth of total consumption. Furthermore, the maintenance of such taxes and surcharges largely cancels out the effect of the tariff reductions obtained for some of these products in the Kennedy Round. In some instances, too, this over-pricing at the level of the consumer sways consumption habits in the direction of substitute products.

Again, the agreements whereby certain developing countries or groups of countries enter into association with the European Economic Community, and their gradual extension to other developing countries in specific areas (a tendency which would gain a good deal of additional impetus should the United Kingdom join EEC), afford the countries in question preferential conditions of access and violate the spirit of the standstill commitment, inasmuch as discrimination against "third countries", particularly those of Latin America, is intensified, with the consequent deterioration in conditions of access to the Community's market for the products of those countries.

In addition, the possibilities of effective implementation of the standstill recommendation, as formulated at present, are circumscribed by the difficulties of applying viable and objective criteria in every case to determine what should be understood by new barriers (or increases in the incidence of those already existing) against exports from the developing countries, especially in situations such as have arisen and still are arising in the European Economic Community. The countries members of the Community, in forming their Common Market, have to replace their national tariffs and regulations in respect of imports from third countries, and other provisions relating to the protection of their domestic production—especially agricultural production—, by common tariffs and regulations. In these circumstances, the problem is to determine whether the effect of these new common tariff barriers and regulations is or is not more restrictive than that of the internal provisions they supersede. This difficulty will come to the

³⁴ Cases in point are afforded by several bills submitted for consideration to the United States Congress, under the terms of which quantitative restrictions would be established, or the incidence of some already in force would be increased, on imports of various products of special interest to developing countries. However, the President of the United States has declared his intention to veto the corresponding law or laws should Congress pass the bills in question.

fore again should the United Kingdom, or any other new member, join the Community.

There is good reason to believe that in this process of formation of the Common Market the degree of protection accorded to agriculture tends to be fixed in relation to the costs of the Community's least efficient producers. If this is in fact the case, the common external tariff, and other measures in support of domestic production forming part of EEC's common agricultural policy, are likely to have a more restrictive effect than some of the former national tariffs and other measures. This is particularly apparent in the case of products subject to a system of variable import duties, since such duties absorb any difference that may exist between world market quotations and prices on the EEC market, which, for several of the products traditionally exported by some Latin American countries, have been set fairly high. By virtue of this measure and others adopted to support domestic production, EEC's common agricultural policy not only makes for greater self-sufficiency on the Community's part, but also encourages the creation or expansion of exportable surpluses, whose external sales prospects are guaranteed or enhanced by the provisions of regulation 25 concerning export subsidies.

Clearly, then, for effective implementation of the standstill clause a mere commitment to refrain from erecting new barriers or increasing the incidence of those already existing is not enough. A body of multilaterally-negotiated measures is called for, whose expressly-defined purpose is to guarantee that there will be no deterioration in conditions of access to the developed countries' markets for products exported by the developing countries. In this connexion, the Charter of Tequendama points out that one of the objectives of the second session of UNCTAD should be to secure an undertaking on the part of the developed countries to abolish, by 31 December 1968 at latest, all tariff and non-tariff restrictions adopted subsequently to the signing of the Final Act of the first session of UNCTAD. This is simply a way of reaffirming the need for the standstill recommendation to be implemented on the basis of the situation existing prior to mid-1964, as obviously ought to be the case. What is further required is a precise declaration that the object of abolishing such restrictions is to restore the developing countries' former share in the various markets of the developed countries. Thus, compliance with the standstill recommendation would be determined not so much by the clear recognition

that measures and policies adopted by the developed countries constituted tariff or non-tariff barriers as by the impact of those measures and policies on the exports of the developing countries.

3. ASSURANCE OF A MINIMUM SHARE IN THE MARKETS OF THE DEVELOPED COUNTRIES

Both the Charter of Tequendama and the Charter of Algiers underline the need to guarantee the developing countries a minimum share in the developed countries' markets, i.e., to ensure that the latter allocate to the former a fixed percentage of their consumption, in the case of products of developing countries which compete with the domestic production of the developed countries. This could be achieved, as the Charter of Tequendama indicates, through undertakings on the part of the developed countries to set ceilings on self-sufficiency, or to make certain purchases, both under international commodity agreements or arrangements and through other means. In any case, a substantial percentage share of any increase in domestic demand for primary commodities in the developed countries should be reserved for the output of the developing countries. Measures of one or other of these types would constitute means of guaranteeing that conditions of access to markets would not be less favourable than those existing at the time of the first session of UNCTAD, and would therefore be suitable instruments for putting the standstill recommendation into effect.

These minimum percentage shares in importer markets, or the importer countries' maximum rates of self-sufficiency, like purchase undertakings, could be established only through multilateral negotiations which, as pointed out in the Charter of Algiers, would have to follow the product-by-product and country-by-country procedure; to that end, the bases for such negotiations should be discussed and agreed upon at the second session of UNCTAD, together with the question of a suitable occasion and forum for conducting them.

As already explained, the product-by-product and country-by-country approach is necessitated by the wide range of situations to be found in the world commodity market. This negotiation procedure, which seems, moreover, to be the most appropriate method of tackling other Community trade problems as well (especially that of improving conditions of access for primary products to the markets of the developed countries), has the additional merit of reducing

to its true proportions a task which would otherwise seem too complex. In the case under consideration—the establishment of minimum percentage shares in the developed countries' markets for products from developing countries, or, alternatively, the setting of ceilings on self-sufficiency in the developed countries—, product-by-product negotiations will make it easier to demarcate the area of the problems that must be solved in order to reach the desired goal.

The question of assuring exports from the developing countries a specific share in the developed countries' markets does not, of course, arise in the case of commodities wholly or mainly produced by the developing countries, and faced by no competition from synthetic or substitute products (although the volume of exports of such commodities may be, and in some cases is, affected by the application of customs duties, internal taxes or other restrictions, as well as, in the case of specific countries, by the preferential treatment granted to others). But it represents a very real difficulty for products subject to such competition, as well as for those produced both by developed and by developing countries.

In respect of commodities produced mainly by developing countries but facing competition from synthetic products, the problem of guaranteeing them a minimum share in the developed countries' markets arises in so far as the domestic policies of the developed countries, through tax or other incentives, encourage increased consumption of substitutes or alternatives, at the expense of the product exported by developing countries. The fact that most substitutes or alternatives for natural products are of industrial origin (synthetic rubber and fibres, plastics, etc.) imparts a special character to the replacement process, since it would be unreasonable to expect the industrialized countries to adopt measures which are in any way likely to discourage technological research and discoveries.³⁵ On the other hand, there can be no

³⁵ However, at the first session of UNCTAD it was recommended "that countries, particularly developed countries, should avoid giving special encouragement to the production of new synthetics which may displace other natural products and to additional investment in the production of synthetic materials competing with the natural products exported by the developing countries, especially when such investment can be employed more effectively in other fields"; and that "in exceptional cases requiring a departure from this principle, consultation should be held with the developing countries likely to be adversely affected, or with the appropriate international bodies, in order to consider forms of co-operation, including financial measures, to mitigate such adverse effects". (See *Final Act*, recommendation A.II.7, para. 2.)

doubt that the tariff treatment applied by many developed countries to certain natural products, and the marked supply and price fluctuations to which these same commodities are subject, have been among the factors making for their progressive displacement by synthetic products. Only lately has the study of these problems begun to engage sufficient attention, mainly as a result of the recommendations adopted at UNCTAD's first session and the establishment of its Permanent Group on Synthetics and Substitutes.

Unquestionably, however, effective implementation of recommendation A.II.7—which was adopted unanimously at the first session of UNCTAD, and which, among other measures, proposes precisely that of reducing and eliminating tariff and non-tariff barriers in the case of natural and semi-processed products facing competition from synthetics—would represent a real incentive to increased consumption of the products in question. In the course of the suggested multilateral negotiation to determine the means whereby the developed countries could grant and guarantee a minimum share in their markets to products in this group exported by the developing countries, consideration would have to be given, in the first place, to the reduction and ultimate elimination of the said tariff and non-tariff barriers, and of production and export subsidies for synthetic products, and also to other measures which might help to facilitate the access of natural products to world markets or to improve their competitive position.

For the group of commodities produced both by the developed and by the developing countries (mainly temperate zone agricultural products, in particular wheat, maize, rice, meat, milk products, fresh fruits, sugar, oils and oil-seeds, and certain mining products, such as copper, lead, zinc and iron ore, and petroleum), the key problem consists in the highly protectionist policy applied by many developed countries in favour of their domestic production, through tariff and non-tariff restrictions, subsidies and other forms of aid to production, as well as through subsidies and other strong incentives (e.g., terms of payment) for exports of occasional or chronic surpluses or the sale of reserves by the developed countries. All these different measures not only progressively reduce the developing countries' share in supplies for the developed countries, but also lead to increasing competition from the latter in other markets. Negotiation on a product-by-product basis would make it possible to determine the direction of trade flows in each case; to select a specific

period as the base for estimating the minimum share in each of the developed countries' markets that should be guaranteed to imports from developing countries; and to set up appropriate institutional machinery whereby this share could be assured, with the necessary safeguards against unforeseen shortfalls in supplies from the developing countries. At the same time, the establishment of consultation procedures should be negotiated, with a view to regulating the disposal of production surpluses or reserves of developed countries (without prejudice to the adoption of other measures to discourage or avoid encouraging the creation of such surpluses), so that they would not adversely affect the developing countries' exports or exert a depressive influence on world prices.³⁶

One possible form of guaranteeing some of the above-mentioned products a minimum share in the markets of developed countries might be the "multilateral sale-and-purchase contract". In this context, the international wheat agreements negotiated since 1949 furnish a very useful precedent, which could readily be adapted to the ends pursued here. These agreements, however, have operated on the basis of a multilateral commitment assumed by the exporter countries to supply (in conformity with a range of ceiling prices) a specific percentage of the "commercial imports" of each importer country. A multilateral sale-and-purchase contract on these lines does not constitute a guarantee of a minimum share in the markets of developed countries, since total imports might be reduced if domestic production increased faster than consumption. This minimum share should therefore be established as a percentage of total consumption in each developed country.

A slight variant of this type of multilateral commitment is constituted by the proposal mooted in the draft sugar agreement that has been under discussion since 1965. This provides for the maintenance of the exporter countries' minimum share in the markets of the importer countries by means of a provision establishing, first, that the net annual imports of each party to the agreement shall not be lower than the average for the four preceding years, and, sec-

³⁶ The following is one of the decisions adopted by the American Chiefs of State at the Punta del Este meeting with reference to international trade: "To strengthen the system of inter-governmental consultations and carry them out sufficiently in advance, so as to render them effective and ensure that programmes for placing and selling surpluses and reserves that affect the exports of the developing countries take into account the interests of the Latin American countries". (See Declaration of the Presidents of America, chapter III, paragraph 4.)

ondly, that each of the importer countries shall adopt measures to ensure that at least 50 per cent of its total consumption increment shall be satisfied by means of imports. The incorporation of the latter factor—increases in imports proportional to those of consumption—really provides reasonable guarantees of access to the importer markets, since, on the one hand, the point of departure is the maintenance of the current share (determined by the average for the four preceding years), and, on the other hand, an endeavour is made to ensure that this share will remain at least the same at future levels of consumption. The adoption of an arrangement of this kind, whose application, like that of the other procedure described above, could be confined to developed countries' imports from developing countries, would at the same time afford a means of "setting ceilings on self-sufficiency" in the developed countries, and thus modifying the over-protectionist policies which some of them pursue.

In the case of a good many of the products comprised in the group under consideration (wheat and secondary grains, meat, milk products and fisheries products), the share of the developed countries in world exports is relatively high (between 75 and 80 per cent), and therefore the scale of the quantitative commitments that some of these countries would have to assume with respect to market access for exports from the developing countries would not be large enough to introduce an undue measure of rigidity in trade flows. To a lesser extent, the same is true of other products, such as tobacco, citrus fruits, vegetable fats and oils, etc., in respect of which the developed countries' share of world exports generally exceeds 50 per cent.

4. THE REDUCTION AND ELIMINATION OF TARIFF AND NON-TARIFF RESTRICTIONS

As in the case of other measures for facilitating the access of primary products to the markets of developed countries, if international action is to succeed in reducing or eliminating tariff and non-tariff restrictions on commodities in those markets, it is necessary to proceed on a product-by-product basis, with the object of negotiating the establishment of a gradual liberalization programme.

To that effect, the first step would be to weigh the different significance of the protectionist restrictions imposed on products which compete with the output of developed countries and those of a mainly fiscal character usually imposed on products which only developing

countries export. A programme of action designed to remove the first type of restrictions must necessarily have long-term objectives, in view of the complexity of the interests associated with each country's protectionist policy. In the case of tariff restrictions imposed purely for fiscal purposes, the action programme may have short-term objectives, since in most cases the aim would be mainly to cushion the impact of a loss of fiscal revenue, which does not generally represent very large sums in the national budgets concerned.

A third category of restrictions, usually in the form of customs duties, is intended to accord preferential treatment to imports from certain countries or groups of countries. Such imports are completely or partially exempt from the duties applicable to goods from other countries. These special preferences, which occur mainly in the British Commonwealth of Nations and the European Economic Community in favour of associate countries, are dealt with separately in the next section.

As regards protected products in the developed countries' markets (where imports compete with home production), the first objective is unquestionably to secure strict compliance with the standstill commitment, i.e., to avoid intensifying protectionist policy and thus afford progressively stronger incentives for the expansion of domestic production. The adoption of "setting ceilings on self-sufficiency", which was discussed in a previous section, would be a positive step in this direction, even though it does nothing to solve the problem of lowering tariff and non-tariff barriers. Therefore, without the developing countries' renouncing the final objective of more trade liberalization for products which compete with the developed countries' own production, it would seem advisable to discuss some short-term action measures, particularly in regard to tariff restrictions.

To that end it would be best—in the case of some of the more important products—to examine the possibilities of establishing duty-free quotas in favour of exports from developing countries. Considering the relatively small share of these countries in world exports of most of the products in question, the creation of duty-free quotas would not seriously jeopardize the stability of the developed countries' domestic markets, while on the other hand the appropriate safeguard or escape clauses could be established, provided recourse to them were dependent upon multilateral consultation machinery.

In the same context, it would be worth-while

exploring the possibilities of arrangements similar to that negotiated for beef (but not yet put into effect) between EEC and Argentina in the last stage of the Kennedy Round. The bases of that arrangement were a reduction in tariff charges, a reduction in the supplementary variable levy during some months of the year and, during the remaining months, its complete suspension, which would be timed to coincide with the period when domestic supply declined. This type of arrangement undoubtedly offers certain advantages for those products in respect of which there are marked seasonal fluctuations in market supplies.

In the case of products for which it is impossible to negotiate a duty-free quota or the type of arrangement described above, a third alternative might be for developed importing countries to undertake to transfer unilaterally to developing exporter countries a specific percentage of the taxes and other charges levied on imports from that source. If this unilateral transfer were established only for the proportion of imports from developing countries, the developed countries would still retain the amount collected on imports from other developed countries (which in this group of products generally account for the larger proportion of world trade). Although this procedure would do something to facilitate such an international arrangement, since the sums transferred to developing countries would represent only a fraction of the total collected, it might defeat its own ends inasmuch as it would mean dividing the developed countries' imports into two categories, one subject to partial drawback and the other not, with every likelihood of the former being discouraged in favour of the latter. It would be as well, therefore, to examine very carefully the repercussions of any international arrangement of this kind, in order to foresee its possible effect on demand for products from developing countries.

In the group of products in which the developed countries' protectionist policies play no part, i.e., tropical agricultural commodities,³⁷ the majority of those countries have recognized the need to grant complete exemption from tariff charges on imports, first at the GATT-sponsored Ministerial Meeting in May 1963 and subsequently in the Final Act of the first session of UNCTAD. Although some countries have complied with these commitments, at least in

³⁷ Although these are the commodities mainly affected by the above-mentioned problem of restrictions applied by EEC and the United Kingdom (see next section) with the purpose of according special preferential treatment to imports from certain developing countries.

part, exemption from tariff charges is not yet the general rule.

Moreover, tariff charges are not the only or even always the major obstacle encountered by tropical agricultural commodities in the markets of some developed countries. They are commonly supplemented or replaced by internal taxes which often amount to more than the actual import tariffs. Consequently, the reduction or elimination of customs duties alone would not suffice to achieve a substantial liberalization of trade in these items. The internal taxes (particularly where they unduly restrict consumption of the products affected) would also have to be reduced or eliminated. This measure has already been provided for in recommendation A.II.1 of the first session of UNCTAD and in the commitments established under article XXXVII of the General Agreement on Tariffs and Trade.

Negotiations for a programme of reduction and elimination of customs duties and internal taxes levied by the developed countries on this group of commodities might be based on the principle of a gradual process whereby: (a) the complete elimination of tariff charges would be achieved in five years by a cumulative annual reduction of 20 per cent; (b) internal taxes would be eliminated in the same way, or the developed countries might agree to restore to exporter countries a cumulative annual proportion of 20 per cent of the total collected under that head, so that by the end of the fifth year the drawback would be equal to the total. The adoption of this gradual formula might obviate the difficulties which the developed countries have hitherto encountered in implementing the pertinent recommendations and commitments they accepted, since spacing the process out over five years would avoid the disruptions that might result from complete and immediate elimination. The drawback formula might be a feasible course if the developed countries consider that such taxes should be maintained for reasons other than that of obtaining fiscal revenue.

Quantitative restrictions are relatively easy to identify, although the preparation of a complete list would entail extensive research in which co-operation would be required not only from Governments but also from chambers of commerce and exporting and importing organizations and enterprises, which are in the best position to have a direct knowledge of such restrictions. The interested parties would have to negotiate a programme for the gradual elimination of such restrictions—particularly, and in a

shorter period, those infringing GATT provisions and not covered by waivers, and those introduced after the adoption of standstill recommendations and commitments—or for the gradual increase of quotas until the restriction is in fact eliminated.

5. THE ELIMINATION OF SPECIAL PREFERENCES FOR PRIMARY PRODUCTS³⁸

The community of interests which is largely the basis for concerted action by the developing countries to defend their international trade interests is jeopardized by the preferential tariff treatment given by some developed countries to certain developing countries.

The need to eliminate these discriminatory policies was recognized and accepted by all countries participating in the first session of UNCTAD. Recommendation A.II.1 of the Final Act established that preferential arrangements should be abolished *pari passu* with the effective application of international measures providing at least equivalent advantages for the present beneficiaries. The widespread establishment of conditions of free access for primary products to the markets of developed countries, which would result from the implementation of other provisions of the same recommendation, would inevitably mean the elimination of preferential treatment, while affording the developing countries at present benefiting from such treatment the advantage of free access to the markets of other developed countries.

Despite the importance of this problem, no progress has been made since the first session of UNCTAD towards implementing the above-mentioned recommendation, and little has been done to evaluate the trade advantages which preferential treatment represents for the countries benefiting therefrom, or to define and analyse the possible equivalent advantages that might be offered to those countries.

In the circumstances, adequate background information was not available for the discussion of

³⁸ It is generally accepted that the elimination of existing preferences will present far fewer difficulties in respect of manufactures and semi-manufactures than in the case of commodities, and that the establishment of a system of general preferences for the former, accorded by the developed to the developing countries, would in principle provide, through free access to the developed countries' markets, advantages equivalent to those enjoyed by some developing countries which now benefit from special preferences in those markets. In any case, as set forth in the Charter of Algiers, this should be a feature of the general system of preferences, which should also contain provisions by virtue of which situations where that objective had not been achieved could be remedied.

this subject by the Group of 77 at its meeting in Algiers, and the Charter of Algiers merely reaffirms unanimous support for the original recommendation, and requests that studies be carried out, on a country-by-country and a commodity-by-commodity basis, on the implications of the abolition of the special preferences in force and on measures appropriate to ensure that countries which at present enjoy such preferences receive equivalent advantages. The Charter also states that, in the case of certain commodities, international agreements might constitute the appropriate instrument for reducing and even eliminating special preferences.

At best, it will be a long time before the studies in question can be completed and their conclusions considered in order to negotiate an over-all programme for the elimination of special preferences. Meanwhile, it appears essential that the developed countries should enter into a commitment at the second session of UNCTAD not to extend existing preferences to other developing countries, to take any other trade measures that might increase the coverage of those preferences,³⁹ or to establish new preferences.

The importance of this commitment is all the greater inasmuch as, since the first session of UNCTAD, EEC has negotiated new arrangements of this kind and is considering others. It is thus obviously making the task of eliminating such preferences more complex, because of both their wider geographical coverage and the larger number of products involved. Non-proliferation of these special preferences is really implicit in the standstill commitment, since wider application would be a means of intensifying the discrimination against exports from the largest group of developing countries (and thereby making the existing barriers even more effective).

This is all without prejudice to any measures that may be internationally concerted in favour of the less advanced developing countries. The Latin American States have always recognized the need to grant preferential treatment to the relatively less developed countries, but at the same time they have unanimously declared that "these special privileges should not constitute a trade discrimination among developing countries".⁴⁰

³⁹ For example, by raising customs duties on imports from third countries, or by reducing or abolishing the duty-free banana import quota allocated in EEC to the Federal Republic of Germany, which is the Latin American banana producers' biggest market in Europe.

⁴⁰ See the Charter of Alta Gracia.

It is urgently necessary to arrive at specific commitments in this connexion for a number of reasons. First, it is generally recognized that these arrangements involving special preferences constitute a reversion to the earlier political idea of "spheres of influence". Secondly, if such discriminatory arrangements persist, and still more so if new ones are concluded, more pressure will be applied to enable the Latin American countries also to obtain discriminatory preferences in the United States market. A third consideration which must never be lost sight of is that the proliferation of special preferences not only tends to split up the world market but is also liable to create political friction among the developing countries.⁴¹ Now that the Yaoundé Convention is nearing expiry and the developing countries belonging to the British Commonwealth are preparing themselves for the changes that may take place if the United Kingdom joins the European Economic Community, this is an ideal time to adopt decisions which will lay down trade policy guidelines for the next decade.

(a) *The position of the Caribbean countries in the United Kingdom's preferential system*

The preferential treatment accorded to the Caribbean countries members of the British Commonwealth (Barbados, Guyana, Jamaica, and Trinidad and Tobago) in the United Kingdom market mainly benefits two agricultural commodities (sugar and bananas).

Of the total tonnage covered by the Commonwealth Sugar Agreement (a little over 2.5 million tons), a quota of approximately 900,000 tons is allocated to the Caribbean countries. The preferential treatment which the United Kingdom accords to the parties to the Agreement consists, first in the application of a lower import tariff than that levied on supplies from third countries and, secondly, in the payment of a previously negotiated price (higher than the free world market price) for most of the supplies provided against their quotas. In the case of the Caribbean countries, the negotiated price is applied to about 730,000 of their aggregate quota of 900,000 tons; the remainder has access to the United Kingdom market at free prices plus preferential tariff duty.

⁴¹ The dangers inherent in the system of special preferences are highlighted in the *Survey of the Alliance for Progress. Foreign Trade Policies. A study prepared at the request of the Sub-Committee on American Republics Affairs of the Committee on Foreign Relations, United States Senate* (Washington, U.S. Government Printing Office, 30 October 1967).

Canada has no part in this arrangement; it imports sugar from the Caribbean countries at free market prices up to an aggregate quota of 275,000 tons, on which it imposes a preferential tariff of 29 Canadian dollar cents per 100 pounds. By virtue of a recent agreement, Canada decided to refund to Caribbean exporter countries members of the United Kingdom preferential system the total value of duties collected on sugar imports from that source.

As a result of this preferential treatment, the Caribbean nations export their sugar mainly to the United Kingdom and Canadian markets, although in recent years exports to the United States have risen because of an increase in the import quotas allocated to those countries (see table 3).

Banana exports are important only for Jamaica, where they represented about 8 per cent of the total value of exports in 1964-65. The preferential treatment accorded by the United Kingdom to imports from British Commonwealth countries consists in complete exemption from import charges, whereas supplies from other countries are subject to *ad valorem* duties of approximately 15 per cent. This preferential treatment is supplemented by quantitative import restrictions. In 1965, 95 per cent of Jamaica's banana exports went to the United Kingdom.

This brief description of the preferential treatment enjoyed by the Caribbean countries in the United Kingdom market in respect of their two major agricultural exports shows the magnitude of the problems those countries will have to face if it is gradually eliminated. Except for Barbados, where sugar accounts for a large proportion of total exports, in the other countries the contribution represented by sugar exports is much smaller, and has been declining in recent years as a result of the increase in exports of

bauxite and alumina (from Guyana and Jamaica) and petroleum and petroleum products (from Trinidad and Tobago). Moreover, the sugar problem could be suitably dealt with in the context of the international sugar agreement which is currently being negotiated, by means of guarantees covering, for instance, a minimum share in the total consumption of developed countries and a price level above that of free market prices both of which objectives are included in the draft agreement under discussion.

Nevertheless, mainly in the light of their past history, there are grounds for considering that the economy of the Caribbean countries is even more heavily dependent than this brief analysis reveals upon the preferences they enjoy, particularly in the United Kingdom market. The sudden withdrawal of those preferences might cause serious structural distortions; consequently, any action to eliminate them should be adopted gradually and consistently with the other requisites established in the relevant recommendation of the first session of UNCTAD. On the other hand, even the gradual elimination of those preferences, as a result either of the implementation of the UNCTAD recommendation or of the United Kingdom's possible accession to membership in EEC, will undoubtedly stimulate and greatly accelerate the process of change that has already started in the Caribbean countries' trade flows and economic links. It is taking the form of a move towards closer relations with one another and also with the neighbouring Latin American countries, and is leading to more and more intensive co-operation which may well culminate in economic integration.

(b) *The EEC system of special preferences*

The European Economic Community grants special preferences to the Associated African and

Table 3
SUGAR EXPORTS FROM THE CARIBBEAN COUNTRIES, BY DESTINATION

	<i>Barbados</i>	<i>Guyana</i>	<i>Jamaica</i>	<i>Trinidad and Tobago</i>
Total exports, average for 1964-66 (thousands of tons)	167	268	423	189
Percentage shipped to:				
United Kingdom	85.4	49.2	55.0	72.0
Canada	12.3	36.8	24.3	21.6
United States	2.2	13.9	20.7	6.4
Sugar exports as a percentage of each country's total exports	79.3	32.2	32.4	6.3

Source: Official foreign trade statistics.

Malagasy States under the Yaoundé Convention, which came into force in June 1964 for a period of five years. The annex to this Convention lists the following products which can be imported from the associated States free of all duties in force in the Community: pineapples, copra, green coffee, tea, cocoa, pepper, cloves, vanilla and nutmeg. The same exemption is applicable to banana imports over and above a duty-free quota for the Federal Republic of Germany's imports from third countries. Accordingly, all EEC imports of these products from countries not associated with the Community (except bananas, as indicated) are subject to the common external tariff, which is 9.6 per cent for green coffee, 5 per cent for cocoa beans and 20 per cent for bananas. These three commodities represent a high proportion of the exports of several Latin American countries, which are therefore greatly concerned about the discrimination against them in the Community.

The representations which the Latin American countries have made to EEC in this connexion, mainly through contacts between their missions and the Community, and by means of joint memoranda, have so far failed to elicit much response. The stand taken by EEC is that the special preferences accorded to the associated African States cannot injure the Latin American countries, whose exports to the Community have continued to increase in volume a good deal faster in recent years than those of the associated States, even in the case of the above-mentioned commodities of special interest to Latin America.

However, although total export figures may be adduced as evidence that special preferences in favour of associated States have not affected Latin America's exports, there is no guarantee that this situation will continue in the near future, especially as the financial and technical assistance given to the associated States substantially increases their export capacity. Moreover, it is essential that the problem be approached in the light of the principle that there should be no trade discrimination among developing countries. The basic objective by which the conduct of all developing countries should be guided is the spread of conditions permitting free access to the markets of all developed countries for commodities exported mainly or exclusively by the former group. As was seen in the last phase of the Kennedy Round, the persistence of special preferences impedes the establishment of such general conditions of free access.

(c) *Possible procedures and machinery for eliminating special preferences*

A first step to facilitate implementation of the UNCTAD recommendation on the elimination of special preferences for primary commodities should be to prevent their increased or continued proliferation by the adoption, at the second session of UNCTAD, of an undertaking not to extend existing preferences to other countries or take any other trade measures which will increase their coverage, and not to establish any new discriminatory preferences.

Another essential move, which would considerably simplify and facilitate consideration of the problems raised both by the existence of preferences and by their elimination, would be to reduce them to their true scope and proportions, by means of the commodity-by-commodity and country-by-country studies requested in the Charter of Algiers, on the effect of the abolition of the special preferences in force and the steps necessary to ensure that countries which at present enjoy such preferences receive advantages at least equivalent to the losses resulting from their abolition. The product-by-product approach will make it possible to analyse the characteristics and problems of each commodity and the measures that might be adopted to overcome the difficulties in question. The study would no doubt show that the problems are by no means as far-reaching or as difficult to solve as they seem when stated in general terms.

Thus, a first broad evaluation indicates that the major Latin American exports which are or might be affected by the special preferences enjoyed by other areas or countries in the United Kingdom and EEC markets are sugar,⁴² coffee,

⁴² It has been said that the Latin American countries enjoy special preferences in the United States market for their sugar exports, and that this relationship with the United States places them in the same position as the associate countries with the European Economic Community. However, this comparison does not stand up: (a) United States sugar imports are subject to the quota system, which does not exist for EEC imports from the associated States; (b) the quotas benefit not only Latin American suppliers but other developed and developing countries as well; (c) all United States imports, without discrimination, are subject to an import tariff, even when the amount of the charge is offset—under normal market conditions—by the higher price of sugar on the home market; (d) the difference between United States and free world market prices does not constitute a discriminatory trade advantage, since it benefits all supplier countries; (e) this price difference might disappear (and has done so on occasion) with a rise in world market prices, and in fact there are times, as in 1963, when the United States price may be lower than the free world market price; and (f) whereas the system of special preferences in favour of the associated States is conducive to the substitution of some

cocoa and bananas. It must not be overlooked that many other commodities which have a smaller share in Latin America's total exports but are nevertheless important to some countries—certain vegetable oils, for instance—are also liable to be harmed by special preferences.

There are international agreements in force or in process of negotiation or renegotiation for sugar, coffee and cocoa. The problems arising from the abolition of the special preferences in force for them could be at least partially solved by means of those agreements, as suggested in the Charter of Algiers. In other words, the agreements offer practical possibilities for solutions that would be compatible with the wide range of interests of all developing countries, the basic objective being the elimination of special preferences.

No negotiations are envisaged in the near future for the conclusion of an international banana agreement. Nor does this appear feasible, because of the nature of the product and the marketing procedures involved—even though bananas are included in the group of commodities for which the Charter of Algiers requests that such agreements be concluded as soon as possible—, unless the agreements were not of the traditional type, but an arrangement providing for inter-governmental consultations. These consultations might take place within the FAO Study Group on Bananas, with a view to reconciling the interests of exporter countries at the international level. In any case, the point of departure should be, as a minimum requirement, maintenance of the *status quo* (mainly in relation to the duty-free quota in the market of the Federal Republic of Germany), and an equitable distribution of future increases in consumption among all exporter countries, without prejudice to the adoption of a procedure for gradually eliminating the special preferences enjoyed by some producer countries in the markets of certain developed countries.

The following are among the measures that may be suggested for application to facilitate the elimination of the special preferences in force (a process which, according to the UNCTAD recommendation, should be gradual in the case of commodities in respect of which immediate abolition of the preferences might cause serious structural distortions or other grave injury to the economies of countries benefiting therefrom):

sources of supply for others, that is not the aim of the United States import quota system, which has tended rather to reduce the share of all foreign sources in total supply.

(i) A temporary guarantee should be extended to those countries, where necessary, as an interim phase in the process of general liberalization, by establishing quotas in the markets of developed countries where preferential treatment exists. Imports exceeding the agreed quotas would be subject to most-favoured-nation treatment until the general liberalization process was completed;

(ii) Countries at present enjoying special preferences should be provided with more financial and technical assistance to improve their productivity, and therefore their competitive position in international markets, in respect of products affected by the elimination of preferences, or to facilitate the conversion of such lines of production to others which might yield better returns. There should therefore be a substantial increase in financial and technical assistance provided by agencies such as the European Investment Fund, the International Development Association, etc., and in other special facilities which could be considered within the supplementary financing scheme currently under discussion in UNCTAD. Until such time as the special preferences are completely eliminated, the developed countries according them should contribute the amount of customs duties they receive on primary products from other developing countries towards this programme of increased financial aid;

(iii) In any case, it would be necessary to eliminate the "reverse preferences", i.e., those granted by developing to developed countries, or at least to allow such preferences to be extended to other developing countries as well, so that the treatment of their products in the markets of developing countries currently according such preferences would be not less favourable than that given to similar products from developed countries. Thus a serious obstacle to the expansion of trade between developing countries would be removed.⁴³

The elimination of reverse preferences is justified not only because they introduce an element of reciprocity in the concessions of developed countries to some developing States, but also, and above all, because in many cases they involve considerable cost to the latter, through over-pricing, the price often being much higher for imports effected under this system of preferences. Research reveals that in 1961, c.i.f. prices paid for imports from France by the Ivory

⁴³ Some preliminary research shows, for example, that the expansion of EEC exports to Cameroon was achieved at the expense of imports from other countries, including some developing States.

Coast, Cameroon, Congo (Brazzaville), Senegal and Madagascar were 58 and 17 per cent higher for food products as a whole and textiles respectively, than those paid for the same products imported from other countries.⁴⁴

6. INTERNATIONAL COMMODITY ARRANGEMENTS

The fundamental concept governing the recommendations adopted at the first session of UNCTAD in relation to international commodity agreements or arrangements is that they can be suitable instruments for promoting the expansion of world trade in primary commodities, and therefore constitute an integral part of international trade policy. Consequently, their function is viewed in terms of a broader conception of the links existing between trade and development, with the result that their use is not confined to dealing with emergency situations but is determined by their potential contribution, in relatively stable conditions, to the growth of exports of developing countries.

Thus, the objectives ascribed by UNCTAD to commodity agreements not only went beyond the restricted and occasional nature of the function originally assigned to them under the Charter of Havana, but also gave them greater flexibility by considerably broadening their procedures and characteristics, with a view to adapting them to the specific production and market conditions of each individual commodity. In particular, the recommendation in annex A.II.1 states that the scope of agreements should be extended in such a way that the techniques for regulating the market by establishing floor and ceiling prices, export quotas, long-term purchase and sale arrangements, buffer stocks and trade liberalization measures may be supplemented by measures relating to the co-ordination of national production and export policies, realistic guarantees to developing countries in respect of terms of access to markets of developed countries, and market promotion and improvement of marketing conditions and distribution channels.

However, this new conception of international commodity agreements, despite its unanimous acceptance at the first session of UNCTAD, has not yet succeeded in modifying the attitude of certain developed countries, whose co-operation is in some cases essential for the success of the agreements. Admittedly, an agreement in principle on the negotiation of a specific commodity arrangement does not necessarily guarantee

⁴⁴ René Debono, "Les importations des pays en voie de développement posent des problèmes aussi graves que ceux de leurs exportations", *Développement et Civilisation*, N° 24 (Paris, December 1965).

agreement on all its operational aspects; but it must also be recognized that the conceptual advances made at the first session of UNCTAD have not in practice had the significance that might have been expected, mainly because the attitudes of the developed countries do not reflect this new conception. The prolonged negotiations on sugar and cocoa have revealed that some of the developed countries have not been prepared to consider—in the context of those agreements—measures to liberalize trade, guarantee better terms of access to their markets and ensure the maintenance of a minimum share in the future growth of consumption, etc.

This attitude is at variance with the oft-repeated postulate that, in the primary commodities field, international agreements are the most appropriate instruments for solving the export problems of developing countries. It would seem advisable, therefore, that discussion of this subject at the second session of UNCTAD should not be limited to a reaffirmation of support for the recommendations and principles already adopted, but an attempt should be made to arrive at specific commitments for the negotiation of agreements on a specified number of products, defining their main characteristics and the nature of the measures to be adopted to attain their objectives.

The developing countries declared, in the Charter of Algiers, their intention to "consult and co-operate among themselves in order to defend and improve their terms of trade by effective co-ordination of their sales policies", and expressed their hope that a cocoa agreement would be concluded before the end of 1967 and a sugar agreement early in 1968. They were likewise anxious that commodity arrangements for oil-seeds and vegetable oils, bananas, rubber, tea, sisal and hard fibres should be concluded at the earliest possible date, and that appropriate action should be taken in respect of iron ore, nickel, tobacco, cotton, wine, citrus fruit, manganese ore, pepper, mica, shellac and tungsten.

A list of products as heterogeneous as these cannot be properly studied in the short time available at the second session of UNCTAD, but it would be possible to adopt decisions on the carrying out of preliminary studies and the drafting of the corresponding agreements, to establish an order of priority for the preparatory work and to lay down general guidelines for the conduct of the negotiations. Relevant to this preliminary analysis is the classification of primary commodities into the three main groups used by the UNCTAD secretariat: (a) commodities entirely or mainly produced in develop-

ing countries, which are not seriously affected by competition from substitutes and/or synthetics; (b) commodities subject to a high degree of displacement, particularly by synthetic materials; and (c) commodities produced in both developed and developing countries.

It has been recognized that, in general, commodities in group (b) are less suited to be the subject of international agreements, mainly because any measure designed to raise the prices of these commodities by regulating supply tends, in the last analysis, to encourage the displacement of the natural product by synthetics.⁴⁵ It has been suggested, therefore, that the basic way of dealing with the market problems of these commodities must be through measures to increase productivity and improve the natural product's competitive position, through campaigns to promote consumption and through research on new uses. This group includes natural rubber, wool, cotton, and jute and other hard fibres; in every case, world consumption is either declining or not growing quickly enough to absorb world supply.

In accepting the general conclusion that for this group of products international agreements would not be the most appropriate instrument for defending the interests of the developing exporter countries, it must be understood that this conclusion refers to agreements based on regulatory mechanisms such as export quotas, minimum selling prices and other restrictive measures. However, the same UNCTAD recommendation (*Final Act*, annex A.II.1) indicates that commodity agreements can vary considerably in form and nature, so that they can be adapted to suit the specific situation of each commodity.

Consideration could be given to negotiating agreements that would cover the establishment and administration of funds to finance programmes for improving productivity, research on new uses of the natural product, diversification of production and campaigns to promote consumption. All these are possible ways of alleviating the difficulties with which countries exporting these commodities are faced. For the commodities in this group organizations already exist, in one form or another, which serve as a common forum for the discussion of production and trade problems and which could well be

⁴⁵ This does not rule out consideration of price levels in certain types of international agreements on these products. In fact, the maintenance of a reasonable degree of stability could help to strengthen the competitive position of the natural product in relation to the synthetic.

expanded to undertake functions such as those mentioned above. These organizations include the International Rubber Study Group, the International Wool Study Group, the International Cotton Advisory Committee (ICAC) and the FAO Study Group on Jute, Kenaf and Allied Fibres. It would probably not be very difficult to make each of these institutions the executing agency for programmes in the field of technical assistance to producer countries, technological research for promoting new uses of the commodity in question, promotion of consumption and discussion of common problems with a view to adopting standard marketing policies. The International Cotton Advisory Committee, for example, has been discussing the possibility of preparing a draft international cotton agreement, and has come to the conclusion that the type of agreement which restricts production of exports would not work in favour of the developing exporter countries, but would tend, on the contrary, to counteract the efforts producers should make to meet competition from synthetic fibres.⁴⁶ It was suggested that the most appropriate solution would be to establish a Policy Sub-Committee within the Standing Committee of ICAC, to act as a consultative and co-ordinating body with regard to the policies adopted by member countries.

For natural rubber, too, some progress has been made regarding the type of international action that should be adopted to stabilize rubber prices and improve its competitive position vis-à-vis synthetic rubber. At the Conference of Natural Rubber Producing Countries held in October 1967, it was decided to establish an Association of Natural Rubber Producing Countries, whose main task would be to encourage those countries to adopt joint marketing measures with a view to checking the present downward trend of prices, and measures relating to current distribution and transport practices, maritime freight rates, dissemination of techniques for improving crops, and promotion of the use of natural rubber. As a longer-term objective, the Conference recommended the negotiation of an international commodity arrangement embracing not only natural rubber and synthetic rubber producing countries but consumer countries. The existing institutional body (the International Rubber Study Group), to which the main natural and synthetic rubber

⁴⁶ International Cotton Advisory Committee, *Cotton, Monthly Review of the World Situation*, July 1966. A similar conclusion is put forward in the report presented by the UNCTAD secretariat, "The international organization of commodity trade—case study on natural rubber" (TD/B/C.1/PSC/3), 16 May 1966.

producing countries belong, would undoubtedly assist in the consultations on rubber already initiated by UNCTAD.

The biggest group, about which it is impossible to generalize because so many different situations are presented, is constituted by commodities produced in both developed and developing countries. This very fact—that both types of countries produce them—does make it possible, however, to define certain types of problems that are common to all, the most important being the role played by the protectionist policies of importing countries. In most cases the developing exporter countries fulfil the function of residual suppliers, with the result that their share in the markets of the developed countries is determined by variations in those countries' total output. Equally important is the fact that the developed countries are also exporters of many commodities within this group, and that their exports are generally subsidized, with the result that they are in a favourable position to compete against the exports of developing countries in the markets of third countries. In short, for most of the commodities within this group international agreements of a restrictive nature do not represent a satisfactory solution from the standpoint of the developing countries; but this does not rule out the possibility of negotiating other types of arrangements.

Consideration should be given, in the first place, to multilateral contracts, which have long been used in the world wheat trade. Since the main problem with such a commodity is to secure guaranteed access to the markets of the importing countries, the multilateral-contract type of agreement determines the amounts which importers undertake to buy and exporters to sell within a certain price range. The effectiveness of this form of agreement in guaranteeing the developing countries a certain volume of exports is very slight when the purchase-and-sale commitments are established not in relation to consumption but in relation to commercial imports, as has been done in the most recent wheat agreements. In this case, the developed countries' policies for promoting domestic production tend to reduce import requirements, with the result that there is no actual guarantee covering the volume of imports from the developing countries, even if there is a guaranteed floor price.

The establishment of minimum import prices can also be negotiated under this type of multilateral contract, as in the wheat agreements, but in this case it is extremely important to determine the developing countries' share in world

imports. If, as in the case of wheat, the establishment of a minimum selling price means an increase in the earnings of the developed exporter countries (which are the biggest world exporters of wheat), thus making imports dearer for the developing countries (which absorb a large proportion of world imports), this will largely defeat the purpose of commodity agreements, which is not exactly to ensure more remunerative prices for the exports of developed countries. Of course, in the specific case of wheat, the developing countries were compensated to some extent by the establishment of a multilateral aid fund equivalent to about 4.5 million tons per year, in relation to average annual imports of 18.3 million tons, in the period 1959/60-1963/64.

Besides cereals (particularly wheat) and sugar, the commodities in this group include meat, dairy products, hides and skins, animal and vegetable oils and fats, fruit and tobacco, among agricultural products, and copper, iron, lead, zinc and petroleum, among mineral products. In the Kennedy Round an agreement on meat was reached between Argentina and the European Economic Community countries, but, when France tried to introduce amendments that were unacceptable to Argentina, it was shelved. Apart from meat, wheat and sugar (it is still considered likely that a sugar agreement will be negotiated), the prospects of establishing multilateral arrangements for the remaining commodities seem very remote, although this does not mean that attempts to obtain guaranteed access to markets through one of the procedures suggested above should be abandoned.

The problem is somewhat different where mineral products are concerned. In most cases the extractive industries in developing countries represent investments by the developed countries and are usually subject to special régimes. The contractual nature of some of these régimes sets well-defined limits to the capacity of action of the developing countries, although, as has been seen recently, this situation is tending to improve as the countries in question succeed in increasing their participation in the marketing of the product and the establishment of export prices. The most important point to be stressed is that the essential objective of the developing countries is to secure a larger share in the returns on these exports.

In this regard, the experience of the Organization of Petroleum Exporting Countries (OPEC) is very interesting. At the Third Meeting of the Special Committee on Latin American Co-ordination at the Expert Level, in July 1966, it was

suggested that this type of organization should be established among the developing copper exporting countries, since it was felt that an agreement to which the developed countries were parties would not adequately serve the interests of the developing exporter countries. At the Lusaka Conference (June 1967), the Governments of Chile, the Congo, Peru and Zambia agreed to set up an Inter-Governmental Council of Copper Exporting Countries, primarily with a view to adopting and co-ordinating measures to increase the real income accruing to those countries from their copper exports.⁴⁷ With this organization, the developing copper exporting countries are in a position to exercise a stronger influence in all matters relating to the production and export of copper. A similar arrangement could be made in respect of iron ore, lead and zinc. In the case of these last two commodities, an International Lead and Zinc Study Group exists, but although it serves as a forum for the discussion of problems affecting those metals, it does not fulfil any of the functions of OPEC or of the Inter-Governmental Council of Copper Exporting Countries.

The main commodities exported by developing countries only and, within certain limits, not subject to competition from immediate substitutes, are coffee, cocoa, tea, bananas, spices, tropical woods, fish meal and tin. Some of these products have characteristics which make it feasible to negotiate international agreements of a restrictive nature, whose main purpose would be to increase the earnings of exporter countries. The different techniques for regulating the market which might be adopted for this purpose have already been tried out under the existing agreements on coffee and tin, and some of them are also being considered in the current negotiations on cocoa.

Although this group is not very large, each commodity is of vital importance as the main source of export earnings for specific groups of developing countries. Export price policy—or, in other words, the objectives established in respect of achieving and maintaining remunerative prices for exporters—is, therefore, one of the most important aspects of the negotiations for a commodity arrangement and the most difficult from the standpoint of securing an agreement, particularly where effective operation of the arrangement requires the co-operation of the importing countries. The concept of “remunerative prices” may be defined in very different terms by importing and exporting

countries, and even by the different exporting countries. Consequently, a simpler solution should perhaps be adopted, at least in some cases. The need for the price or price range established in the agreement to correspond in theory to the concept of “remunerative prices” or “long-term equilibrium prices” should be waived in favour of its being determined by market conditions in a specific period. At the same time, the administrative council of the agreement should be empowered to modify prices in accordance with subsequent market trends, in so far as its own regulations make such modifications possible or necessary. It is useful to recall, in this regard, the object lesson of the international agreements on coffee and tin. The original text of the coffee agreement did not establish a floor price; subsequently, however, a price range was established at a higher level than that prevailing when the agreement was negotiated, partly because it had been possible to impose some degree of control over supply. In the case of tin, the International Tin Council adopted successive changes in the price range, as market conditions made it necessary to give greater incentives to producers in order to close the gap between production and consumption.

Agreement on a minimum export price may be an indispensable requisite when the arrangement includes the operation of a buffer stock. It should be pointed out, in this connexion, that the difficulties encountered in the negotiation of a cocoa agreement, which until recently were related to the establishment of a floor price and the nature of the operation of the buffer stock, seem to have been overcome at last in the exploratory negotiations conducted under the auspices of UNCTAD. The countries participating in those negotiations agreed to establish an “indicator price” somewhere between 24.5 and 28 dollar cents per pound. Within this range, the Administrative Council of the agreement will take certain measures in relation to export quotas, where they are in operation. It was also agreed that the floor and ceiling prices should be 20 and 29 dollar cents per pound, respectively, and an indication was given of the measures to be adopted by the Council when those limits were exceeded, including the use of the buffer stock. No report on the operation of the buffer stock appears in the memorandum describing the agreement on the price range;⁴⁸ however, information from another source

⁴⁷ Corporación del Cobre, *Informe de Mercado N° 6*, Santiago, Chile, June 1967.

⁴⁸ United Nations Conference on Trade and Development, “Memorandum of Agreement of 4 October 1967” (TD/COCOA.1/11), 25 October 1967.

indicates that the Governments of the United States and Ghana reached an agreement on this question.⁴⁹ According to this information, the buffer stock will be financed by a levy on producers of one dollar cent a pound on all sales of cocoa beans in world markets. Producers will be able to sell to the buffer stock any output above their export quotas, but at only half the floor price established in the agreement. If at any future time the buffer stock were to sell cocoa in the market to stop prices from rising above the agreed ceiling, the proceeds would be used to pay the other half of the minimum price to producers from whom it had previously bought surpluses. The maximum size of the buffer stock has been fixed at 250,000 tons, the approximate equivalent of two years' production surpluses in the recent past.

The agreement reached between the leading exporter and the largest world consumer of cocoa removes one of the obstacles that had arisen in the cocoa negotiations, although it is not absolutely certain that this agreement will be ratified by all the remaining countries at the United Nations Cocoa Conference to be held at the end of 1967. Although this agreement represents a modification of the stand taken by the developing countries in earlier stages of the negotiations, it does not imply renunciation of the earlier principle ratified in the Charter of Algiers, that international financing institutions and developed countries should participate in the financing of buffer stocks. The action of the buffer stock is confined to the purchase of surpluses over the export quotas, so that it cannot intervene directly and regularly in defence of the floor price. The maintenance of this minimum price level depends basically on adjustments in the export quotas, although, clearly, as these quotas are reduced, the amount producers can sell to the buffer stock increases, up to the maximum indicated above. At the same time, producers will not feel encouraged to sell to the buffer stock, since they will receive only half the agreed minimum price.

Another commodity in this group which is of special importance to Latin American countries is coffee. The International Coffee Agreement is in the process of being re-negotiated. The most important problems to be considered in these new negotiations are the redistribution of export quotas, the establishment of production targets (with a view to eliminating chronic surpluses) and the creation of a diversification

fund. The redistribution of quotas is one of the most difficult questions, since many countries claim that they need to secure increases in their quotas, in view of the steady decline in world coffee prices. This problem is related to the automatic adjustment of quotas in accordance with fluctuations in the prices of certain basic grades of coffee, a system which has benefited countries exporting inferior grades rather than those exporting more expensive, high-quality grades. No information is yet available on the results of the negotiations under way, but authoritative sources agree that if the problem of the selective adjustment system and redistribution of quotas can be solved satisfactorily the Agreement will be renewed for a further period. There seems to be a basis of agreement on the establishment of the Diversification Fund, and this would enable the Fund to enter into operation in the near future.

Having considered coffee and tin, for which agreements are in existence, and the possible negotiation of an agreement on cocoa, there remains one other product—bananas—of great significance in the exports of certain Latin American countries. Because of their natural characteristics and production and marketing conditions, bananas are not a commodity that can be made the subject of an agreement, like coffee or cocoa. On the other hand, the Banana Study Group, set up by FAO in June 1965, may play an important role in adopting uniform quality standards, promoting consumption, improving productivity, etc. The Study Group was not in a position to adopt effective measures on these questions at its first session in March 1966, but undoubtedly did so at its second session in October 1967. The question which is perhaps of greatest interest to the exporter countries is the study of problems relating to the distribution of bananas in the consumer markets, since in most cases there are monopoly conditions unfavourable to producers. Furthermore, there is undoubtedly a case of negotiating an inter-governmental agreement on bananas to establish a co-ordinated policy on export prices, transport, and distribution in the consumer markets, particularly with a view to ensuring a greater share of the final price for the producers.

Despite the different forms that government action on international commodity arrangements or agreements can take, the actual contribution that can be made by such agreements in increasing the export earnings of developing countries is relatively limited, in some cases by the small number of commodities for which

⁴⁹ *The Economist*, London, 14 October 1967.

agreements can operate effectively, and in others because the policies of the developed countries do not yet fully reflect the spirit of co-operation and assistance which characterized the UNCTAD recommendations.

It should also be recognized that in some cases there are substantive differences between the developing countries themselves, which make it difficult to adopt a common stand on specific commodity trade problems. Particularly in the case of tropical products, the special preferences granted in the markets of the European Economic Community and the United Kingdom to certain developing countries have given rise to conflicts of interest between those who enjoy the preferences and those who suffer from the discrimination, and this has become a serious obstacle to the adoption of a common stand vis-à-vis the developed countries. It should therefore be repeated that this problem must be fully considered during the discussions at the second session of UNCTAD, since this would help to strengthen the position of the developing countries as a whole and facilitate the negotiations for agreements on a certain number of commodities.

7. OPERATION OF INTERNATIONAL BUFFER STOCKS

Considerable attention has been given in international commodity agreements policy to the establishment and operation of buffer stocks. The establishment of such stocks is determined mainly by certain characteristics of the commodity (durability, storage facilities and costs, international quality standards, etc.) and they appear to be particularly suitable for commodities whose supply or demand is strongly affected by sharp short-term fluctuations, or for dealing with occasional production surpluses. To some extent these conditions restrict the establishment of buffer stocks to a small number of primary commodities. Moreover, as their specific function is to eliminate or reduce the effect on prices of short-term fluctuations in production or demand, their establishment must generally be considered within the framework of an international agreement on the commodity in question and as part of a stabilization mechanism which includes other forms of action, such as export controls and the establishment of floor prices.

Once the prerequisites for the establishment of a buffer stock have been satisfied, two essential aspects of its operation remain to be considered: (a) the form in which it will intervene in the market, and (b) the method of financing.

With regard to the first aspect, it would seem essential that the action of the buffer stock

should cover the forward as well as the spot market. Its intervention would thus not be limited to the moment when prices drop to the minimum level established in the agreement, but would cover a specific area within the price range, in both selling and buying operations. Authority to intervene in the market should apply to the whole of the commercial year in question, whenever market conditions demand, and not merely to the end of the commercial year. Finally, the obligation to buy at the minimum price should include—in so far as financial resources allow—all exportable surpluses not sold by the developing countries, or—where there are export quotas—the part of the quota not exported. In this last case, if producers still have exportable surpluses, the buffer stock could buy these surpluses at prices below the minimum level, provided that they can be used in non-traditional ways.

Secondly, the developing countries should reaffirm, as an essential principle, the responsibility incumbent on the developed importing countries with regard to methods of financing. Of the various methods suggested, the most disadvantageous from the standpoint of the developing countries are those based wholly or partly on the establishment of an export tax, since that would immediately reduce their income. Although this reduction might not constitute an actual loss, it would in any case deprive them of a certain amount of foreign exchange to meet their most pressing import needs. It would therefore be better if the tax were imposed on imports. In either case the problem is that this mode of financing will only permit the operating capital of the buffer stock to be formed over a fairly long period, so that it would not be able to intervene effectively in the market, if circumstances so required, from its first year of operation. Subscription of the initial capital of the buffer stock is therefore an essential requisite, and several formulas have been suggested. One is that developed importing countries should contribute this capital by means of a long-term loan at low interest rates; and another is that an officially guaranteed loan should be negotiated with the international financing agencies. The participation of international financing agencies might be considered a logical extension of their stabilization credit policy, and in that sense it may well lie within the scope of their present statutes, as was decided in the case of compensatory credit.⁵⁰

⁵⁰ According to a statement made by the representative of the International Monetary Fund at the second session of the UNCTAD Committee of Commodities,

The secretariat of UNCTAD has proposed a method of financing buffer stocks that is worthy of note. A central fund would be established with capital supplied by governments and international financing agencies, to provide the initial capital of buffer stocks created under a specific international commodity agreement. The administering council of the agreement concerned would continue to be responsible for the operation of the buffer stock itself, so that the fund would act only as the stock's banking institution, for which purpose it could even receive deposits made by the council.⁵¹

The operational details of such a scheme would present no major difficulty and perhaps in this way some of the objections raised by the international financing agencies to participating in these activities could be overcome. The creation of a fund such as that proposed would also have certain advantages; for example, the total financial resources needed for the operation of two or more buffer stocks could be less than the sums required for each individual stock; moreover, the fund would have easier access to commercial credit when needed to cover a larger volume of operations. However, although the creation of a central fund has certain advantages, there are also greater difficulties to overcome, particularly on the part of the developed countries. It would therefore be advisable for the developing countries, while supporting the proposal until it can be more carefully evaluated, to emphasize the need to create special funds for individual buffer stocks within the framework of international commodity arrangements.

8. POLICY RELATING TO DIVERSIFICATION OF EXPORTS

In considering world commodity trade problems, the question of the diversification of exports cannot be overlooked. Undoubtedly, the

that institution will carefully consider what contribution it can make towards solving the problem of financing buffer stocks.

⁵¹ "Operation and financing of buffer stocks: outline of a study for the second session of the Conference" (TD/B/C.1/29), 10 January 1967.

C. TRADE IN MANUFACTURES AND SEMI-MANUFACTURES

1. PREFERENTIAL ACCESS TO THE MARKETS OF DEVELOPED COUNTRIES FOR MANUFACTURES AND SEMI-MANUFACTURES FROM DEVELOPING COUNTRIES

One of the most urgent and feasible objectives to be attained at the second session of

problems inherent in the diversification of production lie mainly in the sphere of economic development policy, but they are none the less closely linked with specific aspects of trade policy. Diversification of domestic production in developing countries would help to reduce the heavy dependence of some countries on one or two commodities as their main source of export earnings, and might lessen the requirements for certain imports, such as foodstuffs and raw materials. Obviously, in this context the most important aspect is the extent to which specific commodity policies might contribute to the diversification of production.

A diversification programme adopted within the context of a specific international commodity agreement might offer advantages even over the short term for products suffering from chronic production surpluses. The programme would have to be financed by a central fund administered by the corresponding council, with capital contributions from governments signatories of the agreement, particularly the developed countries, and even from international development financing agencies. The International Coffee Organization is at present considering the creation of such a fund, and the United States has promised to participate. It might also be possible for the exporting countries themselves to undertake to contribute to the fund a proportion of the higher export earnings they would obtain if prices rose above a certain level or if existing basic export quotas were increased. While it is true that a programme to restrict some crops and encourage others cannot have the same urgency or priority in all countries, there is no doubt that all would benefit from a policy aimed at eliminating chronic production surpluses.

The creation of these diversification funds as a feature of international commodity arrangements was supported by all the developing countries in the Charter of Algiers, "highest priority being given to diversification in the programmes on inter-regional, regional and sub-regional levels in the process of trade expansion and economic integration among developing countries".

UNCTAD is to negotiate and agree on the basic principles for the establishment of a general system of preferences by the developed countries in favour of the manufactures and semi-manufactures of developing countries, and to secure a commitment to negotiate the details

of the system at a later date, at specific times and places, on the basis of those principles.

The Latin American countries members of the Special Committee on Latin American Co-ordination (CECLA) formulated in the Charter of Tequendama their common position on the minimum aspects which should be covered by those basic principles; these essentially coincide with those specified in the Charter of Algiers as representing the position of the Group of 77. The developed countries members of the Organisation for Economic Co-operation and Development, for their part, agreed at a ministerial meeting at the end of November 1967 to submit to the New Delhi Conference a proposal containing various basic principles for the establishment of the preferential system, which represent the concerted position worked out in the OECD discussions.

The Charters of Tequendama and Algiers incorporate—with some modifications—many of the proposals submitted by the ECLA secretariat for consideration by the members of CECLA. Summarizing the essential aspects of these proposals, the basic principles for preferential access to the markets of developed countries for the manufactures and semi-manufactures of developing countries are as follows:

(i) The system should include general non-discriminatory and non-reciprocal preferences granted by all developed countries to all developing countries;

(ii) Preferential treatment should take the form of free access for manufactures and semi-manufactures from the developing countries, through: the elimination of all import duties; the elimination of non-tariff restrictions, without prejudice to the establishment of quotas for products regarded as "critical" or "sensitive";

(iii) Preferences should cover all manufactures and semi-manufactures from the developing countries, without restrictions on volume or value. Products regarded as "critical" or "sensitive" by various developed countries may be excepted; the negative lists or lists of exceptions should be considered in consultation with the developing countries⁵² to ensure that they are kept to a minimum and that no product is completely excluded, e.g., by establishing (tariff) duty-free quotas to which preferential treatment would be applied, or by granting a

⁵² The procedure could be similar to that followed with the lists of exceptions in the Kennedy Round. In addition to the initial consideration, the lists should be revised periodically, with a view to achieving their gradual elimination or an equally gradual increase in the tariff quotas.

partial reduction in customs duties for developing countries;

(iv) An escape clause would also be included, by virtue of which quantitative or tariff limitations similar to those described in the previous sub-paragraph could be imposed in duly established cases of market disruption in important industries in the developed countries caused by preferential imports. Application of this escape clause should be subject to multilateral consultations, objective criteria and other procedures which, as was pointed out in chapter II, should in general govern the use of escape clauses by the developed countries and, in particular, the application of restrictions on the ground of market disruption problems. The developed countries should likewise agree to take the appropriate domestic measures to make the necessary adjustments in those industries which are unable to compete with similar industries in developing countries;

(v) The economically relatively less developed countries should not be subject to the limitations imposed for one or other of the reasons indicated above, unless imports from those countries have been an important factor in the market disruption;⁵³

(vi) The preferential system should be of sufficient duration to ensure that its objectives are fully achieved and that all developing countries benefit from the preferences.⁵⁴ In any event, it should be revised at the end of an initial minimum period with a view to extending its duration, particularly in the case of the economically relatively less developed countries. The withdrawal of preferential treatment should be gradual;

(vii) Without prejudice to the measures indicated above in favour of the economically relatively less developed countries (exemption from the quantitative restrictions imposed on "critical" products or from the application of escape clauses in cases of market disruption, and greater duration of the preferential treatment), once the system is under way other measures will be determined where necessary to ensure that they are able to take full advantage of the preferences;⁵⁵

⁵³ The Charter of Algiers states, however, that "escape clause actions limiting or excluding particular exports should not apply to the less competitive products from less advanced countries".

⁵⁴ The Charter of Algiers states that the preferential system should last for an initial period of at least twenty years.

⁵⁵ Other special measures which are indicated below could be taken in favour of the relatively less developed countries, particularly in the field of technical and financial assistance, with a view to promoting the establish-

(viii) The special preferences already granted in markets of certain developed areas or countries to manufactures and semi-manufactures from certain developing countries should be absorbed in the system of general preferences;⁵⁶

(ix) The developed countries with centrally planned economies should grant advantages whose effects are at least equivalent to the preferences granted by the developed market economy countries (for example, their import programmes should include increasing quantities of manufactures and semi-manufactures from developing countries, including tolerance margins for prices and delivery dates);⁵⁷

(x) Permanent machinery should be established, within a sufficiently universal framework, to supervise and evaluate the preferential system, to undertake consultations (e.g., for the periodic revision of the lists of exceptions, the application of the escape clause, and the consideration of new measures that might be adopted in favour of the relatively less developed countries or to correct situations unfavourable to certain countries), to identify the different problems presented by the application of the system and to propose ways of overcoming them. Without prejudice to this work to be undertaken on a permanent basis, provision should be made for more comprehensive periodic revisions of the system at reasonable intervals (every three or four years), with a view to modifying the system and adopting new measures that experience has shown to be either necessary or advisable.⁵⁸

ment or expansion in those countries of export-oriented industries. In fact, during the first stage, these would be the most important measures, since in those countries the first problem to be overcome in order that they may take full advantage of the opportunities provided by the preferential system is to ensure that they have industries in a position to export.

⁵⁶ The Charter of Algiers states that "the new system of general preferences should ensure at least equivalent advantages to developing countries enjoying preferences in certain developed countries to enable them to suspend their existing preferences on manufactures and semi-manufactures. From the beginning, provisions should be incorporated in the system of general preferences, for the developed countries to redress any adverse situation which may arise for these developing countries as a consequence of the institution of the general system of preferences."

⁵⁷ For other possible measures that could be taken by the centrally planned economies in favour of the developing countries, see section H below.

⁵⁸ It should be taken into account that the establishment of the system of general preferences will be breaking new ground, and that it will not be possible to identify and solve beforehand all the problems and special situations which might arise during its operation; on the other hand, it is extremely likely that some of the problems and difficulties anticipated will prove to be less serious than expected or will not materialize at all.

The proposal to be submitted by OECD to the second session of UNCTAD also contains a number of principles which essentially coincide in many aspects with those suggested here and those contained in the Charters of Tequendama and Algiers. Of the aspects on which the greatest differences of opinion exist—and on which the negotiations at the New Delhi Conference will therefore have to concentrate in order to reach agreement on the basic features of the proposed preferential system—, three should be mentioned: the products to be covered by the system of preferences; the preparation of the lists of exceptions and the procedures to be employed; and the method of application of the escape clauses.

With regard to the first point, OECD would propose that the preferential treatment (which would take the form of tariff preferences only) should be applied in principle to all manufactures and semi-manufactures, these being understood to mean the products included in chapters 25 to 99 of the Brussels Tariff Nomenclature (BTN), and that the inclusion of other products should be determined separately in each case. It is of vital interest to the developing countries that the preferential treatment should be extended to many products in earlier chapters of the BTN, especially prepared foodstuffs and other processed and semi-processed primary commodities, since these are produced by industries which have better and more immediate prospects of exporting to developed countries.

At the very least, an attempt should be made to secure a partial reduction of customs duties on these products in order to remove the protectionist element, leaving that part of the duties which compensates the domestic industry for the greater cost of the raw materials or other inputs (this is an extremely important element in the case of prepared foodstuffs, given the high degree of protection generally afforded to their agricultural products by the developed countries). In other words, this would eliminate the protection given to the domestic industry, which would then be on an equal footing with similar industries in the developing countries. In certain specific cases, a duty-free quota could be established for the developing countries.

With regard to the lists of exceptions (which, according to the OECD report, should be as short as possible), it has already been pointed out that they should not be established on a unilateral basis by each developed country, but should be submitted for consultation and negotiation with the developing countries, in order

to avoid including products of particular interest only to some of these countries; and that if it is not possible to remove the latter products from the lists, an attempt should be made to secure either a partial reduction of duties or duty-free quotas. In addition, these lists, and the lists of products generally excluded from the preferential system, should be revised periodically, with a view to reducing or eliminating them or to securing a gradual increase in the amount of tariff reduction or in the size of the tariff quota.

It has also been pointed out that the escape clause should not be freely interpreted and unilaterally applied by the developed countries. A multilateral consultation procedure should be adopted (for instance, as part of the proposed machinery for supervising the operation of the preferential system), for the purposes of ascertaining, as far as possible on the basis of objective criteria, whether such clauses can justifiably be invoked in any given case, and, if so, the nature and scope of the restrictions to be applied. Otherwise, the system of preferences is liable to lose much of its efficacy.

Besides negotiating and agreeing upon the bases for the system of preferences and an appropriate occasion for conducting the relevant negotiations, the New Delhi Conference should adopt a decision to bring the system into force by 1 January 1969 at the latest, even if only provisionally, i.e., even though the negotiations may not have been completed.

If the expected agreement is reached at the second session of UNCTAD on several of the basic features of the system and priority is given to the immediate negotiation of others, there would seem to be no insuperable obstacles to the entry into operation on 1 January 1969, or even earlier, of the arrangements already agreed upon, while the negotiation of other points still open to question can be continued later. For example, it is agreed in principle that the system of preferences should cover at least the products comprised in chapters XXV *et seq.* of the Brussels Trade Nomenclature, and that for most of them the preferential treatment would consist in duty-free access to markets, with the exclusion of products on the lists of exceptions.

To bring the system of preferences into operation, it would not be essential for agreement to have been reached on other questions, such as, for example, the definitive form and content of these lists of exceptions and of the lists of other products either not covered at all or only partly covered by the preferential

system; procedures for the application of escape clauses; equivalent benefits for countries currently enjoying special preferences; the duration of the system; and formulas for the gradual exclusion from the preferential system of developing countries that have attained a satisfactory competitive position.

The solution of some of these and other problems will be greatly facilitated, and in some cases will only be made possible by the experience acquired in the actual course of operation of the system of preferences. Moreover, the longer its entry into force is deferred, the less its efficacy will be, owing to the gradual application of the concessions granted by the developed countries in the Kennedy Round.

2. PROGRAMME FOR THE LIBERALIZATION AND EXPANSION OF TRADE IN MANUFACTURES AND SEMI-MANUFACTURES OF INTEREST TO THE DEVELOPING COUNTRIES

An undertaking on the part of the developed countries to grant general preferential treatment to the developing countries' manufactured and semi-manufactured products would be the most efficient contribution that the second session of UNCTAD could make to the improvement of conditions of access to the developed countries' markets for the products in question. But there are several other aspects of trade relations between developing and developed countries which are of essential interest at the same level, and which may not be covered by a system of preferential treatment of the type analysed in the preceding section. They relate mainly to matters complementary to the preferential system, such as the elimination of non-tariff restrictions of every kind, and the effective application of other commitments, resolutions and recommendations previously adopted at various meetings and conferences.

In this connexion, the developing countries have drawn attention, at the most recent sessions of the Trade and Development Board, to the slowness of the progress in this field.⁵⁹ At GATT meetings, too, it has been pointed out that a number of residual import restrictions are still being applied to manufactures and semi-manufactures classified as of special export interest to the developing countries; in many

⁵⁹ The Committee on Manufactures alluded to the non-removal of barriers against exports of manufactures and semi-manufactures of interest to the developing countries, and recommended that sectoral studies should be undertaken first on wood and forest products, and later on fisheries products and iron ores.

instances, these restrictions are incompatible with the General Agreement itself.⁶⁰

All this suggests the necessity of combining preferential treatment for the developing countries' manufactures and semi-manufactures in the developed countries' markets with the adoption of specific programmes of action and other measures directed towards various objectives whose attainment will strengthen the export prospects of the products concerned under existing market conditions.

Of basic importance in such a plan of action is fulfilment of the undertaking to refrain from increasing the incidence of restrictions on products currently or potentially of special export interest to the developing countries. This standstill commitment in its turn is directly linked to the application of restrictions on grounds of market disruption. It would be of little use to improve conditions of access to the developed countries' markets for the developing countries' manufactures and semi-manufactures, if, in the event of the generation of fairly large-scale export flows of some of these products, the importer countries began to invoke escape clauses to justify the application of restrictions (particularly on the grounds that market disruption was occurring or might occur), without first seeking to modify their own structure of production on lines that would permit of solutions compatible at least with the maintenance of the said trade flows.

In addition to the system of preferences, therefore, a liberalization programme would have to be adopted in favour of the manufactures and semi-manufactures of developing countries, whose essential provisions should relate to the following objectives, *inter alia*:

(a) The establishment of a specific programme for the reduction and gradual elimination of quantitative and other non-tariff restrictions applied by the developed countries to products currently or potentially of special export interest to the developing countries. Such a programme is a *sine qua non* for the effective implementation of the specific provisions of the General Agreement on Tariffs and Trade, part IV, article XXXVII. Should the general reduction or elimination of such restrictions, in particular those described as "residual", be impossible, they could at least be reduced or eliminated in favour of imports from the developing countries;

⁶⁰ See, for example, the reports of the Committee on Trade and Development, the Group on Residual Restrictions, and the GATT Negotiations Committee for the Kennedy Round.

(b) The developed countries should also undertake to adopt, in the event of their being faced with market disruption problems, internal measures to promote adjustments of their industrial structure, especially the conversion of any industries that are unfitted to cope with immediate or potential competition from their counterparts in the developing countries. This would be an essential prerequisite for a new and more dynamic international division of labour which would promote the expansion or establishment of industries producing mainly for export in the developing countries. The application of this principle would imply the need for the developed countries to adopt aid programmes in support of internal industries or activities adversely affected by competition from imports of developing countries' products, so as to facilitate their conversion to other activities or sectors in which their efficiency or productivity might be greater;⁶¹

(c) In cases where tariff and non-tariff restrictions are based on apprehensions as to competition from products exported by other developed countries, an endeavour should be made to accord individual treatment to products from developing countries through the opening of tariff sub-items. In this connexion, a very valuable contribution is represented by the Customs Co-operation Council's offer to collaborate in studying the technical possibilities of identifying those products of export interest to the developing countries whose characteristics may differ from those produced in developed countries; and in respect of which tariff reductions could be negotiated;⁶²

(d) The developed countries should seek to reduce their margins of effective tariff protection for primary products at various stages of processing not included in the system of preferences for manufactures and semi-manufactures, so as to allow or encourage their processing in the developing countries. It often happens that a higher degree of effective protection is also related to the number of stages of processing, particularly in the case of food products or final consumer goods;⁶³

⁶¹ See the provisions of the United States 1962 Trade Expansion Act set forth in chapter II, section A, above.

⁶² For example, on the basis of studies carried out on textile products made on hand looms, the Customs Co-operation Council formulated recommendations which served as a basis for the Nordic countries' decision, announced at the second session of the UNCTAD Committee on Manufactures, to grant tariff reductions on products of this type.

⁶³ See the study prepared for UNCTAD by Bela Balassa under the title "The structure of protection in the

(e) The liberalization process for manufactures and semi-manufactures of special interest to the developing countries should also cover the "invisible" restrictions implicit in health provisions, regulations relating to mixing, standards, techniques, packing, brands, quality, etc., which are also acquiring increasing importance, in both relative and absolute terms, as effective instruments for the restriction of imports. An inventory of such restrictions must be made, and their nature, scope and effects defined, in order to determine how far they are justified and to promote their elimination or modification in the light of objective criteria, particularly in cases where their application is left to administrative discretion, and therefore creates situations of uncertainty for exporters in developing countries, who do not know until a shipment reaches its destination whether it will or will not be considered acceptable. It would also be advisable to request a group of experts to prepare a code of regulations with which the content and application of health provisions and other regulations normally accepted as legitimate should be brought into line, in order to prevent their serving as cover for improper import restrictions. Consultation machinery or, better still, a court of arbitration should be established to deal with complaints of non-compliance with the regulations in question;⁶⁴

(f) In the study of maritime transport problems, an exhaustive examination should be made of the availability of shipping space and the incidence of freight charges, since, as these often depend on the scale and direction of trade flows, they usually represent a proportionally heavier burden for developing countries' exports to developed or other developing countries;

(g) Lastly, in connexion with the developed countries' current or future commitments to liberalize their imports of manufactures or semi-manufactures from the developing countries, the problem of the escape clauses once again arises. As they are applied at present, they restrict the scope of the commitments to a greater or lesser extent, and often render them inoperative.

industrial countries and its effects on the exports of processed goods from developing nations" (TD/B/C.2/36, May 1967), which includes a table showing nominal and effective tariffs on specific products, according to their degree of processing, in the major industrial countries.

⁶⁴ See, for example, the provisions of the *General Agreement on Tariffs and Trade*, article X.

3. SOME PROBLEMS RELATED TO THE SUPPLY AND PROMOTION OF EXPORTS OF LATIN AMERICAN MANUFACTURES AND SEMI-MANUFACTURES

In considering the problems related to supply and exports of manufactures, a distinction should be drawn between countries which already have a sufficiently broad industrial base and those whose industrial or manufacturing base is at a very incipient stage. In the latter, trade in manufactures can only increase if the productive base is expanded and, in particular, if potential export industries are established.

The problem is very different in countries which already possess a fairly broad industrial base and whose exports of manufactures should be far more dynamic than they have been so far. This is attributable to several well-known factors, particularly the slanting of their industrial development almost exclusively towards the domestic market, and the high tariffs by which such development has always been protected. The result is a large number of industries which are relatively inefficient because of the small domestic markets, the absence of the incentive of competition, the fact that they are compelled to use inputs produced locally at a high cost—which puts them at a disadvantage on world markets—and the lack of a suitable economic policy in most countries. Entrepreneurs, for their part, have generally shown no interest in launching out to the external market.

This absence, in some cases, of an export mentality on the part of entrepreneurs and of a systematic government policy for promoting exports is evident from the fact that most industrial plants rarely work at over 70 per cent of their installed capacity. In other words, there is usually a considerable margin of idle capacity and, therefore, an export potential which cannot be made use of, although if it could production costs would drop considerably. It is only in exceptional cases, generally associated with periods of severe economic recession and therefore of limited domestic demand, that entrepreneurs have been interested in seeking export markets. While they have usually obtained fairly satisfactory results, their interest has flagged with the recovery of domestic demand.

It should, however, be recognized that in the last few years a number of Latin American entrepreneurs have shown themselves increasingly concerned with the export trade and have been making greater efforts to sell their products in foreign markets, while the governments have been adopting a variety of measures to promote these exports. These measures, however, have been of relatively limited scope and have

not been welded into a coherent and systematic programme. The same reservations apply to the technical assistance which the countries have been receiving with regard to both the establishment and the expansion of export industries and to the actual promotion of exports of processed and semi-processed products.

Studies carried out by the secretariat of ECLA, in collaboration with that of UNCTAD, on the background data and prospects for exports of manufactures from some Latin American countries at a fairly advanced stage of industrial development⁶⁵ (see estimates, table 4, p. 70) show how far such exports might be increased over the short and medium term merely by making full use of the various industries' existing production capacity, provided that the above-mentioned obstacles are satisfactorily overcome and that other requirements such as adequate supplies of raw materials, better operating conditions for industry and some institutional improvements are fulfilled. Although these estimates only represent orders of magnitude, they indicate the extent to which the growth of Latin America's exports of manufactures is obstructed by factors attributable to supply conditions, and the considerable growth potential which could be turned to account by energetic and systematic action. However, this in no way lessens the obstacles to growth resulting from existing or potential restrictions which prevent these products from entering the markets of developed countries.

In order to make better use of this growth potential and overcome the existing limitations, the Governments of the developing States agreed

⁶⁵ See "Short- and medium-term prospects for export of manufactures from selected developing countries" (Chile, TD/B/C.2/33; Argentina, TD/B/C.2/34; Brazil, TD/B/C.2/35; Venezuela, TD/B/C.2/40; and Colombia, TD/B/C.2/45). These studies were presented jointly by the secretariats of UNCTAD and ECLA to the Committee on Manufactures of UNCTAD at the session held in July 1967.

to suggest to UNCTAD and the United Nations Organization for Industrial Development that further steps should be taken to develop and promote their exports of manufactures.

As a result of various moves on the part of the United Nations, it was decided to establish the United Nations Export Promotion Programme to take care of the provision and co-ordination of technical assistance to developing countries in this field, through an international trade centre set up jointly by UNCTAD and GATT. The system will operate in close co-operation with the regional commissions. It will provide specialized technical assistance to the developing countries requesting it, and it can draw on the resources of other specialized agencies.

Accordingly, in order to supplement more suitable industrial development policies and other internal measures it will be necessary to adopt other measures in the sphere of international co-operation aimed mainly at:

(a) Greater and more effective international technical and financial assistance in improving the domestic productivity and international competitive position of industries in developing countries, with emphasis on the identification, programming and development of export industries;

(b) Technical assistance for the promotion of exports at the national level (including manpower training at different levels, quality and packing control, etc.), and in the form of external market research on products for which developing countries may have existing or potential export prospects. It would be particularly useful if UNCTAD could collaborate with UNIDO, GATT and the regional economic commissions in both this respect and that referred to in paragraph (a);

(c) Expansion of markets for developing countries' industries through regional co-operation, integration and complementarity.

D. THE FINANCING OF TRADE AND DEVELOPMENT

1. EXTERNAL SECTOR FINANCIAL TRENDS IN THE LATIN AMERICAN COUNTRIES

In 1964-66 the annual growth rate of total exports from the region (excluding Cuba) was higher than in previous years and, partly as a result of this, Latin America was able to overcome the serious stagnation of total imports from 1961 to 1963 (see table 5). The factors determining the improvement in exports in 1964-66 were mainly temporary, and external demand declined steadily towards the end of 1966 and more

sharply in 1967—as reflected in the drop in external prices of many export items.

Consequently, there has been renewed pressure on the balance of payments of most countries of the region, with a widening of the persistent gap between export earnings and the growing foreign exchange needs for external payments. The larger amounts involved in servicing foreign investment and loans during the past few years, the limitations on a larger net inflow of foreign capital—both because of its higher cost and the

Table 4
TOTAL EXPORTS AND EXPORTS OF MANUFACTURES, SHORT- AND MEDIUM-TERM
PROJECTIONS FOR SELECTED COUNTRIES, 1960, 1963 AND 1965

(Millions of dollars)

	Exports			Estimated potential export capacity	
	1960	1963	1965	Short term: 1-2 years	Medium term: 4-5 years
<i>Argentina</i>					
Total exports	1,079	1,365	1,493		
Exports of manufactures	116	201	...	317	406
<i>Brazil</i>					
Total exports	1,269	1,407	1,596		
Exports of manufactures	37	50	158	161 ^a 99 ^b	209 ^a 131 ^b
<i>Chile</i>					
Total exports	490	542	688		
Exports of manufactures	37	34	93	100	200
<i>Colombia</i>					
Total exports	465	447	539		
Exports of manufactures	7	16	41	61	108
<i>Venezuela</i>					
Total exports	2,384	2,465	2,460		
Exports of manufactures ^c	3	31	14	135	184
<i>Total for the five countries</i>					
Total exports	5,687	6,226	6,776		
Exports of manufactures	200	332	507 ^d	774	1,107

Source: "Short and medium-term prospects for export of manufactures from selected developing countries" (Chile, TD/B/C.2/33; Argentina, TD/B/C.2/34; Brazil, TD/B/C.2/35; Venezuela, TD/B/C.2/40; Colombia, TD/B/C.2/45).

^a Alternative I, with restricted domestic demand.

^b Alternative II, with normal domestic demand.

^c Provisional figures.

^d This total was obtained by assuming that the value of Argentina's exports of manufactures in 1965 was the same as in 1963 and 1964.

shortness of the repayment periods—and the relatively low levels of international reserves in many countries, all mean that imports are more likely to feel the effects of the insufficient growth of external purchasing power. There is no real change, therefore, in the diagnosis of the situation that has been facing the Latin American countries for many years.⁶⁶

⁶⁶ See, *inter alia*, *The economic development of Latin America in the post-war period* (United Nations publication, Sales No.: 64.II.G.6), and "Latin America and the United Nations Conference on Trade and Development" (E/CN.12/693), which is included in *Proceedings of the United Nations Conference on Trade and Development*, vol. VII, and was published in Spanish under the title of *El Comercio internacional y el desarrollo de América Latina* (México, Fondo de Cultura Económica, 1964).

In the Charter of Tequendama and the Charter of Algiers a number of common positions have been adopted on the need to reach agreement at the second session of UNCTAD on a series of international financial measures aimed at substantially raising the developed countries' contribution to the balanced growth of developing States. These measures include the following: developed countries should supply at least 1 per cent of their gross national product for net financial flows to the developing countries; the International Bank for Reconstruction and Development should be transformed into a development bank for supplying credit exclusively to developing countries; the resources of the International Development Association should be augmented and all other international credit

Table 5
LATIN AMERICA:^a BALANCE OF PAYMENTS POSITION ON CURRENT ACCOUNT, 1951-66
(Millions of dollars at current prices)

Year or period	Exports			Imports			Net external factor payments			Balance on current account	
	Goods ^b (f.o.b.)	Services	Total	Goods (f.o.b.)	Services ^c	Total	Returns on investment	Interest on loans, etc.	Total		
<i>Average</i>											
1951-55	7,068.7	854.6	7,923.3	-6,048.5	-1,589.9	-7,638.4	-828.1	-86.7	-914.8	-629.9	
1956-60	7,930.2	1,303.1	9,233.3	-7,013.6	-2,159.4	-9,173.0	-1,035.9	-186.6	-1,222.5	-1,162.2	
1961-63	8,596.3	1,528.2	10,124.5	-7,381.7	-2,264.0	-9,650.7	-1,067.5	-337.3	-1,408.8	-931.0	
1964-66 ^d	9,983.3	1,886.3	12,102.9	-8,291.7	-2,735.7	-11,027.4	-1,327.9	-479.4	-1,807.3	-731.8	
1961	8,145.1	1,495.9	9,641.0	-7,316.2	-2,219.7	-9,535.9	-1,014.3	-329.8	-1,344.1	-1,239.0	
1962	8,602.4	1,493.5	10,095.9	-7,565.5	-2,288.6	-9,854.1	-1,103.1	-348.4	-1,451.5	-1,209.7	
1963	9,041.3	1,595.3	10,636.6	-7,263.3	-2,298.8	-9,562.1	-1,085.0	-333.6	-1,418.5	-344.1	
1964	9,737.9	1,724.3	11,462.2	-7,841.3	-2,650.7	-10,492.0	-1,231.9	-414.6	-1,646.5	-676.3	
1965	10,182.7	1,894.2	12,076.9	-8,086.0	-2,649.6	-10,735.6	-1,290.4	-491.7	-1,782.1	-440.8	
1966 ^d	10,729.4	2,040.3	12,796.7	-8,947.7	-2,906.9	-11,854.6	-1,461.4	-532.0	-1,993.4	-1,078.3	
<i>Increase</i> —————	1964-66 (%)	16.1	23.4	19.5	12.3	20.6	14.3	24.4	42.1	28.7	-21.4
	1961-63										

Source: ECLA, on the basis of IMF, *Balance of Payments Yearbook*.

^a Excluding Cuba.

^b Including net movements of non-monetary gold.

^c Including private transfer payments (grants).

^d Provisional figures.

Table 6
LATIN AMERICA:^a BALANCE OF PAYMENTS POSITION ON CAPITAL ACCOUNT, 1951-66
(Millions of dollars)

Year or period	Net autonomous capital movements							Financing of balance on current account			Total
	Net direct investments ^b	Net long-term loans		Official transfer payments (grants)	Other movements	Total	Trade debts and balance of payments loans (net)	Monetary authorities' net reserves (-increase)	Errors and omissions		
		To the private sector	To the public sector							Total	
<i>Average</i>											
1951-55	325.3	50.0	47.7	97.7	29.2	66.2	518.4	131.2	61.7	-81.5	629.9
1956-60	827.2	201.1	95.3	296.4	103.7	59.9	1,287.2	151.3	44.7	-321.1	1,162.1
1961-63	275.5	246.5	605.5	852.1	129.9	-303.7	953.8	90.2	76.4	-189.4	930.9
1964-66	484.4	66.2	739.7	805.9	137.0	5.3	1,432.5	-80.8	-335.1	-284.9	731.1
1961	371.6	329.0	486.7	815.7	130.3	-298.7	1,018.9	109.3	206.2	-95.4	1,239.0
1962	211.4	306.1	520.1	826.2	129.1	-245.9	930.8	266.1	427.5	-414.7	1,209.7
1963	233.5	104.5	809.8	914.3	130.2	-366.4	911.6	-104.7	-404.6	-58.0	344.1
1964	395.7	197.3	760.3	957.6	137.5	221.9	1,712.7	52.9	-266.7	-822.6	676.3
1965	529.5	-18.9	533.2	514.3	172.9	-147.2	1,069.5	-102.1	-620.9	94.3	440.8
1966 ^c	527.9	20.2	925.6	945.8	100.5	-58.9	1,515.3	-193.1	-117.6	-126.3	1,076.3

Source: ECLA, on the basis of IMF, *Balance of Payments Yearbook*.

^a Excluding Cuba.

^b Including reinvestment.

^c Provisional figures.

operations should be on terms currently applied by IDA; a multilateral interest equalization fund should be created; short- and medium-term debts should be consolidated into long-term obligations in order to alleviate the excessive burden on the balance of payments in developing countries; a supplementary financing scheme should be adopted on the basis of a consensus to be reached after considering the proposal prepared by the International Bank; conditions governing drawings on the International Monetary Fund under the compensatory financing scheme should be made more flexible; and, lastly, the needs of developing countries should be duly considered in establishing conditions for access to the additional international liquidity recently approved by IMF.

Although these suggestions do not cover all the financial questions affecting the position of developing countries, they constitute a minimum programme for the decisions which will have to be negotiated at the second session of UNCTAD and subsequently.

Consideration of financial aspects of the external sector of the Latin American economies as a whole can only be on the basis of generalizations which are not always valid for a particular country. Nevertheless, the conclusions reached illustrate the nature of the problems affecting these countries.

The growing volume of net external factor payments has already been mentioned. The next point to examine is the recent evolution of net transfers of foreign resources to Latin America, for which purpose the net movements of capital are shown in table 6. If the amount of those payments (as shown in table 5) is compared with the net autonomous or non-compensatory capital movements included in table 6, it will be seen that in the two periods 1961-63 and 1964-66 there was a net outflow of funds from the region. Since imports cannot be contained beyond certain limits without affecting the domestic economy it is understandable that Latin America's total international reserves should have been subjected to strong pressures, which in 1962 brought them to their lowest level in the past fifteen years. The modest recovery between 1963 and 1965 was halted in 1966 when they once again declined (see table 7).

This, together with the rigidity and size of the external debt servicing, will undoubtedly severely restrict Latin America's chances of speeding up its rate of development, unless there is a considerable change in the next few years in external financing terms for the developing countries, or a radical reorientation of international trade policy.

A number of technical studies have recently revealed a serious widening of the gap between foreign exchange needs and availabilities in the developing countries in general and in the Latin American countries in particular.⁶⁷

This research leads to the conclusion that even a slight improvement in the rate of economic growth will call for a substantial increase in net transfers of funds to the developing countries, and an expansion and diversification of exports which will be very hard to achieve, given the prevailing conditions in international trade and present international economic policy. Financial problems also arise that will demand immediate attention. Service payments on external investment and loans tend to increase much faster than exports, and will lead to an even greater reduction of the capacity to import than in the last few years. This will frustrate the efforts made in some of the Latin American countries to generate the necessary expansion of their export trade, which have had powerful repercussions, owing to the nature of the measures that have been adopted in some instances to encourage exports and restrict imports, and thus enable the countries concerned to meet their service commitments (amortization and interest payments on external loans and profits and dividends on foreign investment).

In a recent IBRD study,⁶⁸ attention is drawn to the magnitude of the disbursements which the Latin American countries will have to make in the next few years under the head of amortization and interest payments on the public debt and the officially-guaranteed private debt. When other short-term debts—the non-guaranteed private debt and the dividends and profits payable—are also taken into account, the resulting total shows the urgency of correcting the situation without delay. Otherwise, the Latin American countries will be unable to obtain the capital goods, raw materials and intermediate products which they require in ever-growing quantities in order to further their economic development. Not only will the endeavour to improve the rate of economic growth have been in vain, but in many Latin American countries it will be difficult even to maintain the existing levels of economic activity.

⁶⁷ See F. Gerard Adams, "Alternative projections of the foreign exchange 'gap': a reconciliation" (ID/B/C.3/30), prepared at the request of the UNCTAD secretariat.

⁶⁸ IBRD, *External medium- and long-term public debt. Past and projected amounts: outstanding transactions and payments 1956-75* (October 1966). It should be noted that the Bank does not assume responsibility for the accuracy and coverage of the statistics quoted in the study.

Table 7
GOLD AND FOREIGN EXCHANGE HOLDINGS, BY
MAJOR GROUPS OF COUNTRIES

(Millions of dollars)

Year	Latin American countries ^a	Other developing countries ^b	Industrialized countries ^b
1950	2,757	6,475	37,400
1953	2,853	6,960	39,590
1957	3,434	6,325	44,130
1960	2,746	6,700	47,560
1961	2,640	5,860	45,120
1962	2,135	6,070	45,815
1963	2,610	6,540	47,335
1964	2,735	6,505	48,750
1965	3,165	7,305	48,835
1966	2,975	7,970	48,665

Source: IMF, *International Financial Statistics*, Supplement to 1963/64, 1966/67.

^a Excluding Cuba and including Jamaica.

^b According to IMF classification.

In the transactions between Latin American countries and international financing agencies, although operations with the Inter-American Development Bank have increased and the region's share in the total loans authorized by IBRD has remained virtually the same (though with a higher percentage of utilization), its relative position has deteriorated somewhat in transactions with the International Finance Corporation, and markedly so in transactions with IDA, which grants very easy terms. Moreover, although IMF transactions are not development credit operations but are intended to cover balance-of-payments deficits, in the past three years Latin America has recorded a net outflow of funds vis-à-vis IMF, in contrast with the position of other developing countries in their transactions with the Fund.

In conclusion, unless and until there is a radical change in the pattern of the flow of funds into the developing countries—as regards both the amount of assistance provided and the terms on which it is offered—the Latin American countries will find it more and more difficult to finance their economic development, and the endeavours made in recent years to expand their capacity to export will be crushed under the growing burden of their external payments situation.

The UNCTAD secretariat has carried out a study (TD/B/C.3/36) on the developing countries' new capital requirements if net inflows

are to be maintained at their present level. The basic assumption is that the terms on which assistance is given will take one of the following three alternative forms:

1. Terms generally similar to those current in 1966;

2. IDA-like terms (50-year maturity, 10-year grace period, no interest, and a service rate of 0.75 to 1 per cent);

3. Terms similar to those generally applied by IBRD in the case of development credits (25-year maturity, 5-year grace period and interest rate of 6 per cent per annum).

On the basis of these three alternatives, projections were formulated of the gross loans required, the debt outstanding, and the percentage of gross loans that will be absorbed by debt service, if net credit inflows are to increase at an annual rate of 5 per cent (see table 8).

At the first session of UNCTAD, a project was presented (E/CONF.46/C.3/2) for the establishment of an interest equalization fund, financed by the developed countries or by IBRD, as a means of obtaining resources from the traditional capital markets for IDA, which would lend them to the developing countries on its usual terms.

Table 8
ANNUAL GROSS LOANS, DEBT OUTSTANDING
AND PERCENTAGE OF GROSS LOANS THAT
WILL BE ABSORBED BY DEBT SERVICE

(Thousands of millions of dollars)

Terms	Annual gross loans	Debt outstanding	Debt service as a percentage of gross capital inflow
<i>First alternative</i>			
1966	11.4	32.3	35.1
1970	13.9	50.9	46.7
1975	16.1	78.7	54.0
<i>Second alternative</i>			
1966	11.4	32.3	35.1
1970	13.4	49.7	44.8
1975	13.9	72.4	46.8
<i>Third alternative</i>			
1966	11.4	32.3	35.1
1970	14.5	52.1	49.0
1975	17.5	85.6	57.7

Source: UNCTAD, "Problems of debt servicing: The outlook for debt service" (TD/B/C.3/36), tables 2 and 3.

The developed countries claim that legal and technical difficulties would be created for their governments by the fact that the interest equalization fund would involve them in long-term commitments for an indefinite period. If these operational difficulties could be overcome and the proposal put into effect, this system might do much to augment the flow of capital into developing countries or consolidate the external debt in countries with a critical balance-of-payments situation.

In part two, section C, of the Charter of Algiers and in the Charter of Tequendama, the developing countries endorsed the proposal to create a multilateral interest equalization fund to cover the interest margin between loans obtained on international capital markets and the resources channelled to developing countries.

Similarly, consideration should be given to the idea of the industrialized countries establishing national interest equalization funds for the same purpose. This would make it considerably easier to establish a multilateral interest equalization fund at a later date.

2. INTERNATIONAL FINANCING POLICY AND FLOWS

In different forums and on different occasions, the highest authorities of international financing agencies have referred with marked pessimism to the evolution of the financial flows from industrialized countries to developing areas, which,

far from attaining the objectives established for the Development Decade, displays—two-thirds of the way through the period—the following characteristics: virtual stagnation of the total amount of aid; a decrease in assistance as a proportion of the income of the developed countries; a reduction in the proportion of assistance extended in the form of donations and “soft” credits; an increase in the proportion of “tied” credits; higher interest rates; shorter average maturity periods.

Table 9 shows disbursements made over the period 1961-66 by the countries members of the Development Assistance Committee (DAC).⁶⁹

If interest payments (which rose from 223 million dollars in 1961 to 494 million in 1966) are deducted from total official disbursements, the net flow of financial resources would be virtually the same throughout the period, except in 1964, when there was a decline.

On the other hand, private disbursements followed a very erratic course. As defined by the Organisation for Economic Co-operation and Development, the figures include new investment and loans net of disinvestment, repatriation of principal and amortization of capital in

⁶⁹ Composed of representatives of Australia, Austria, Belgium, Canada, Denmark, France, the Federal Republic of Germany, Italy, Japan, the Netherlands, Norway, Portugal, Sweden, the United Kingdom, the United States and the Commission of the European Economic Community.

Table 9
NET OFFICIAL AND PRIVATE, BILATERAL AND MULTILATERAL DISBURSEMENTS
BY DAC^a MEMBER COUNTRIES, 1961-66

(Millions of dollars)

	1961	1962	1963	1964	1965	1966
<i>Official disbursements</i>						
Grants and grant-like operations	4,035.5	4,115.8	4,047.1	3,881.5	3,780.4	3,761.2
Long-term loans, net	1,248.0	1,322.2	1,678.1	1,604.3	1,980.7	2,157.9
<i>Total bilateral disbursements</i>	<i>5,283.6</i>	<i>5,438.2</i>	<i>5,718.9</i>	<i>5,485.8</i>	<i>5,761.1</i>	<i>5,919.1</i>
Operations with multilateral agencies, net..	770.8	551.7	361.6	374.9	451.8	512.7
<i>Total official disbursements</i>	<i>6,054.4</i>	<i>5,989.9</i>	<i>6,080.5</i>	<i>5,860.7</i>	<i>6,212.7</i>	<i>6,431.7</i>
<i>Private disbursements</i>						
Investment and lending, net	2,562.9	1,929.3	1,847.9	2,332.4	3,338.8	2,300.4
Export credits	698.6	657.9	533.7	875.8	736.5	1,131.7
<i>Total private disbursements</i>	<i>3,269.5</i>	<i>2,587.2</i>	<i>2,381.6</i>	<i>3,208.2</i>	<i>4,075.3</i>	<i>3,432.2</i>
<i>Total official and private disbursements</i>	<i>9,323.9</i>	<i>8,576.9</i>	<i>8,462.1</i>	<i>9,068.9</i>	<i>10,288.1</i>	<i>9,863.9</i>

Sources: 1961-62: OECD, *The Flow of Financial Resources to Less-developed Countries, 1961-1965*, p. 201, table A.1; 1963-66: OECD, *Development Assistance Efforts and Policies, 1967 Review*, pp. 184-185, table 2.

^a Development Assistance Committee, see footnote 69.

credits and loans. In other words, they exclude payments of profits, dividends and interest, which are substantial and could appreciably reduce the net amounts available to developing countries. Nor are export credits computed since they are excluded in the definition of net financial resources given in annex A.IV.2, paragraph 4, of the *Final Act* of the first session of UNCTAD.⁷⁰

As regards the objective of transferring 1 per cent of national income to the developing countries, which, in accordance with recommendation A.IV.2, each economically advanced country should endeavour to attain, table 10 is self-explanatory.

The table gives the percentage estimated by DAC to represent official and private flows and the reconciliation prepared by DAC in order to make its figures compatible with those worked out by various United Nations agencies.⁷¹

Column E shows the percentage figures calculated by the United Nations, which indicate that the DAC reconciled figures are over-estimated by 20 per cent. They also reveal that the targets envisaged are far from being attained,

⁷⁰ See UNCTAD, *Final Act*, vol. I, p. 44, footnote 54.

⁷¹ There are certain differences between the methods of calculation applied by DAC and by other sources (see *International flow of long-term capital and official donations, 1961-1965*, with special reference to table 2, footnote b, p. 7, and the *1967 Review*, op. cit., annex I, "Reconciliation of DAC and UN/UNCTAD data on the flow of resources to less-developed countries and multilateral agencies").

and point to the marked deterioration in recent years, which has prompted the emphasis, in both the Charter of Tequendama and the Charter of Algiers, on the developing countries aspirations for the attainment of the goal of 1 per cent of the gross national product, establishing a minimum proportion, to be progressively raised, for official aid flows, net of amortization and interest payments.⁷²

From the over-all figures published by DAC, it may be inferred that Latin America's share in total flows of donations, public and private credits, and transactions with multilateral agencies, which was approximately 15 per cent from 1961 to 1963, declined somewhat in the next two years, but regained its former level in 1966.

No complete statistics are available for accurate quantification of the flow of resources from the centrally-planned economies to the developing countries. The bilateral commitments of the economies in question, to judge from the data to hand, fluctuated widely, falling

⁷² A resolution on the subject adopted by the Executive Council of the General Treaty on Central American Economic Integration at its second session (Tegucigalpa, September 1967) reads as follows: "The industrialized countries with both market and centrally-planned economies should undertake to credit direct to IDA the difference between 1 per cent of their gross product and the amount of financial assistance actually provided each year, whenever the latter is lower than the former. IBRD will establish, jointly with UNCTAD, the machinery for measuring international financial flows in order to determine those magnitudes" (SIECA/CE-XXIX D.T.32).

Table 10
DISBURSEMENTS BY DAC MEMBER COUNTRIES TO DEVELOPING AREAS AS
A PERCENTAGE OF THEIR GROSS PRODUCT

Year	According to DAC ^a methodology			Reconciliation with UNCTAD methodology	United Nations calculations
	Official	Private	Total	(total)	
	A	B	C	D	E
1961	0.78	0.42	1.20	1.06	0.84
1962	0.72	0.30	1.02	0.90	0.72
1963	0.69	0.27	0.96	0.85	0.66
1964	0.61	0.34	0.95	0.82	0.65
1965	0.60	0.39	1.00	0.88	...
1966	0.57	0.31	0.88	...	...

Sources: Columns A-D: for 1961, OECD, *The Flow of Financial Resources to Less-developed Countries, 1961-1965*, p. 208, table A.3; for 1962-66, OECD, *Development Assistance Efforts and Policies, 1967 Review*, pp. 104-105, table VII.1; column E: *International Flow of Long-term Capital and Official Donations, 1961-1965* (United Nations publication, Sales No.: 66.II.D.3).

^a Development Assistance Committee, see footnote 69.

from 1,000 million dollars in 1961 to one-third of that sum in each of the years 1962 and 1963, rising again to 1,246 million in 1964 and dropping to a little over half that amount in 1965.

From a qualitative standpoint, Latin America is at a still greater disadvantage vis-à-vis the other developing countries, since most of the United States's sales on grant-like terms are made to Asian countries, and France's grants and grant-like operations largely benefit its former colonies in Africa; whereas a very high proportion of the export credit operations with developed market-economy countries falls to the share of the Latin American countries which aggravates the situation still further.

The financial terms granted by DAC countries, which had deteriorated notably in 1965, improved in the course of 1966 with the reduction in the weighted average interest rates, and barely perceptibly as regards maturity periods, which were kept much shorter than in 1964 (see table 11).

Table 11

DAC^a MEMBER COUNTRIES: AVERAGE FINANCIAL TERMS OF OFFICIAL BILATERAL LOAN COMMITMENTS, 1962-66

Year	Weighted average maturity periods (years)	Weighted average interest rate (percentages)
1962	24.5	3.5
1963	25.1	3.3
1964	28.4	3.1
1965	22.3	3.6
1966	23.5	3.1

Source: OECD, *Development Assistance Efforts and Policies, 1967 Review*, p. 76, table V.3.

^a Development Assistance Committee, see footnote 69.

The export credits (tied aid) granted by the market economies have increased in recent years on such a scale that they now account for two-thirds of the developing countries' total service payments. There are serious objections to this type of financing. In the first place, the credits are extended on a short- or medium-term basis, and their servicing aggravates balance-of-payments problems; secondly, costs are very heavy, owing to the interest rates, insurance and other commissions charged; and, thirdly, the tying of the use of these credits to specific sources of supply means that higher prices are paid for the goods purchased. For example, it has been estimated that "the tying of aid may

increase costs by from 20 to 40 per cent, and in extreme instances may even result in price differentials ranging as high as 100 per cent or more".⁷³

It is pointed out in a recent United Nations study⁷⁴ that "since the late nineteen-fifties, a gradually increasing number of export credits have been insured and granted on terms and for purposes which have tended to blur the distinction between trade and aid. As a result of this trend, the annual gross flow of new guaranteed export credits exceeding five years, as reported to the Berne Union, rose rapidly from the equivalent of 78 million dollars in 1960 to 709 million in 1963. The resulting complex situation has led to growing concern regarding both the increasing external debt burden of the developing countries and the possibility of trade distortion.

"... Even the extended export credit maturities (averaging eight years, though in some cases much longer) still fall far short of those of genuine development credits, and are not usually based on a realistic evaluation of the importing country's ability to pay. In fact, these maturities often fail to accord with the equipment's appropriate amortization (pay-back) period in the developing country or indeed with the project's chances to 'yield an economic return at all'. Consequently, the lengthening of export credit maturities beyond the five-year limit has not, in most cases, significantly eased the developing countries' over-all external debt burden. Furthermore, in those instances where the burden has been eased, the alleviation has induced a number of these countries to accept a rapid increase in their total export-credit-financed imports.

"For many developing countries, the indebtedness problem has reached a point where there is a serious question as to whether they will be able to continue servicing their existing debts and whether they will be able to secure—or reasonably to accept—additional external financing through the export credit route for the acquisition of equipment needed for new projects."

The proportion of official bilateral loans from the DAC countries represented by export credits actually used, calculated as a weighted average

⁷³ UNCTAD, "The terms, quality and effectiveness of financial flows and problems of debt servicing" (TD/B/C.3/35), p. 16.

⁷⁴ United Nations, "Export credits and development financing. Part one: Current practices and problems" (E/4274), p. 7.

for the six-year period 1961-66, was 45.4 per cent (see table 12). The DAC 1967 Review emphasizes the failure to implement the recommendation on financial terms approved by the Committee in 1965, in which the DAC member countries, recognizing that aid tying "can bring about cumbersome limitations on the freedom of the recipient to choose freely the most suitable sources of supply on the international market", agreed to endeavour jointly and individually to reduce progressively the scope of aid tying with a view ultimately to removing procurement restrictions to the maximum extent possible.

3. COMPENSATORY FINANCING

On the basis of a report by the secretariat of the International Monetary Fund,⁷⁵ prepared at the request of the United Nations Commission on International Commodity Trade, the Executive Board of IMF decided, at a meeting on 27 February 1963, to introduce a special system for dealing with balance-of-payments deficits of member countries arising out of short-term fluctuations in export earnings.

This system consisted in creating additional resources to facilitate drawings on the Fund, particularly by primary exporting countries, but only to compensate for temporary short-falls in export earnings attributable to causes

⁷⁵ IMF, *Compensatory Financing of Export Fluctuations* (Washington, February 1963).

beyond their control. Thus, a drop in prices would not be covered by the system if it was offset by an increase in volume. Nor did the system take account of a deterioration in the terms of trade or a reduction in the purchasing power of exports abroad.

At the first session of UNCTAD the Governments members of IMF were requested to study a number of measures to expand the system and give it greater flexibility.⁷⁶ The Fund modified the system in September 1966,⁷⁷ introducing amendments which could be of great importance in the event of a short-term deterioration in certain primary commodity prices. However, some of the suggestions made by the developing countries were rejected and these could be discussed at the second session of UNCTAD with a view to their eventual adoption by the Fund in the light of the experience acquired in operating the system.

(i) Compensatory credits have not been placed "entirely outside the structure of the gold and successive credit tranches", so that drawings of such credits "would not directly or indirectly prejudice a member's ability to make an ordinary drawing".⁷⁸

(ii) Although compensatory drawing rights have been increased to 50 per cent of the quota,

⁷⁶ UNCTAD, *Final Act*, annex A.IV.17.

⁷⁷ IMF, *Compensatory Financing of Export Fluctuations: Second Report* (Washington, September 1966).

⁷⁸ UNCTAD, *Final Act*, annex A.IV.17.

Table 12

DACA COUNTRIES: NET INCREASE IN PUBLIC DEBT AND PUBLICLY GUARANTEED EXPORT CREDITS EXTENDED TO DEVELOPING COUNTRIES, 1961-66

(Millions of dollars)

Year	Net official bilateral loans (A)	Export credits			Percentage of (D) (A)
		From 1 to 5 years (B)	Over 5 years (C)	Total (D = B + C)	
1961	1,243	277	376	653	52.5
1962	1,322	202	397	599	45.3
1963	1,672	250	283	533	31.9
1964	1,604	349	528	877	54.7
1965	1,981	282	455	737	37.2
1966	2,158	466	666	1,132	52.5
TOTAL 1961-66	9,980	1,826	2,705	4,531	45.4

Source: ECLA, on the basis of OECD, *Development Assistance Efforts and Policies 1967 Review*, p. 72, table V.1.

^a Development Assistance Committee, see footnote 69.

they cannot be used all at one time, save in exceptional circumstances.

(iii) Instead of the rights being applied automatically once the shortfall has been established, the Fund will first determine whether the member country has attempted to find appropriate solutions for its balance-of-payments difficulties.

(iv) The Fund has not complied with the request that, in its determination of the shortfall in export receipts, it should give greater weight to the actual experience of the three preceding years, but has maintained its criterion of taking a moving average for a five-year period centred on the shortfall year, which is weighted with a coefficient higher than that assigned to the two preceding years. In this way, the derived export trend value is lower and, consequently, the amount of the shortfall to be compensated for is also diminished. This is in line with the Fund's view that "it is not the object of the compensatory facility to aim at the largest possible amount of drawings".⁷⁹

(v) No action has been taken on the request that ways should be explored of securing possible refinancing of compensatory financing obligations in the event of a persistent shortfall in export receipts beyond the control of the country affected, although in this regard it must be remembered that the repurchase of currency in respect of ordinary drawings makes it possible for new drawings to be made, and that the Fund's Articles of Agreement specify that it should deal only with temporary balance-of-payments difficulties and not with long-term deficits.

4. SUPPLEMENTARY FINANCING

With the modifications introduced in September 1966, the IMF's system of compensatory credits represents a significant step forward in the field of financing, which could be further improved by measures which experience proves to be the most appropriate for liberalizing its terms. It should be pointed out, however, that short-term plans for financing fluctuations in export earnings have no effect on long-term trends and only serve as a temporary palliative.

The fundamental problem is to overcome difficulties in the financing of economic development plans. Many proposals, projects and studies have been considered by international organizations over the last few years, but it was solely on the basis of recommendation A.IV.18 of the

⁷⁹ See *Compensatory Financing of Export Fluctuations: A Second Report*, op. cit.

first session of UNCTAD that the International Bank prepared, in December 1965, the proposal⁸⁰ which is still under consideration by the UNCTAD Committee on Invisibles and Financing related to Trade and by the Inter-Governmental Group on Supplementary Financing.

The Bank's proposal was adopted as a basis for the discussion of supplementary financing in the above Committee and in the Inter-Governmental Group specifically created for that purpose. At the fifth session of the Trade and Development Board, it was agreed that the Group should submit its findings and recommendations directly to the second session of UNCTAD, with alternative proposals so that countries could express their views on the type of scheme that should be established. Mention should be made, however, of some of the observations made on the Bank's original proposal.

With regard to the principles involved, the developing countries were concerned lest the faculties of the administering agency might be such that its decision would prejudice the sovereignty of governments in respect of certain economic policy decisions involving technical aspects, and that differences of opinion on these subjects might give rise to friction or affect a country's prospects of receiving aid. From the technical standpoint, it was pointed out that the amounts estimated by IBRD for the experimental period might prove to be insufficient, in which case the problem would arise of how to determine the bases for a *pro rata* distribution of the resources available.

Another view expressed was that the financing of a drop in export earnings might not be sufficient to make up for a rise in import prices, and this would involve a conceptual modification of the scheme in order to finance net income on current account. In this regard, a representative of the Bank pointed out the technical difficulties of calculating movements in import prices, but said that the administering agency, if it had the necessary technical means, could calculate export shortfalls in real rather than in nominal terms.

Criticism was also levelled at the requirement that overages should be used to offset future export shortfalls within the plan period, and it was suggested that they might be used to deal with other pressing needs in the countries concerned, such as amortization of the short-term

⁸⁰ International Bank for Reconstruction and Development, *Supplementary Financial Measures: A Study Requested by the United Nations Conference on Trade and Development* (Washington, December 1965).

external debt, reconstitution of the reserves, acceleration of investment programmes or execution of investment projects that had been deferred. In this last case, the beneficiary country might retain a percentage of the overage and transfer the remainder to IBRD.

Another important consideration related to the terms of assistance, which, according to the UNCTAD recommendation, should be similar to those granted by the International Development Association. Under the IBRD scheme, the terms envisaged are similar to those of the basic development financing provided for each individual plan, and this might subsequently create balance-of-payments difficulties for the beneficiary country.

5. COMPENSATION FOR DETERIORATION IN THE TERMS OF TRADE

Both the IMF compensatory financing system and the IBRD's supplementary financing scheme are designed solely to cover shortfalls in export earnings, regardless of the possible effects of a rise in import prices on the purchasing power of exports. Both agencies have acknowledged the validity of the arguments in favour of compensatory financing of a deterioration in the terms of trade, but allege the impracticability of calculating such compensation. The Fund study recognizes that "there are undoubtedly good economic reasons for compensating not the money value but the real value, or importing power, of exports. An estimate of the latter could be arrived at by deflating exports by an import price index based on the shortfall year."⁸¹ It adds, however, that there are a number of objections to this procedure, since most primary producing countries have no import price index, and where such indexes exist, many are unrepresentative or unreliable. Generally speaking, they are usually not available until several months after the export data come to hand, which would delay compensatory drawings. The export and import price indexes of the industrialized countries would not be useful for the purpose in question.

The study outlining the IBRD scheme declares: "Ideally, export shortfalls probably should be calculated in real terms, i.e., after taking account of unexpected movements in import prices, because this would indicate the unexpected change in the ability to purchase a given volume of imports resulting from an unexpected decline in export proceeds. In this way, the scheme

⁸¹ *Compensatory Financing of Export Fluctuations: A Second Report*, op. cit.

could take cognizance of some aspects of the terms-of-trade problem, which has created so much concern in the post-war period."⁸² But IBRD, too, goes on to argue that there are statistical obstacles to an evaluation of the changes in import prices within a reasonable margin of error, and that in any event during the period 1959-63 the weighted index number of the unit value of imports for the developing countries as a whole showed no very marked change.

In other words, the only objection is that at present there are no statistical means of establishing import price indexes, since delays in compensatory drawings as a result of possible time-lags in the provision of statistical data, to which the Fund alludes, could be temporarily obviated by means of adjustable drawings. Whatever the conclusions that may be reached as regards the treatment of the terms of trade in the compensatory and supplementary financing mechanisms, it is important to recall that the developing countries—in particular those of Latin America, in the Charter of Alta Gracia—have urged the need to establish some mechanism whereby they can obtain equitable and non-reimbursable compensation for the losses they suffer as a result of deteriorations in the terms of trade.

6. REFORM OF THE INTERNATIONAL MONETARY SYSTEM

While it is true that no factual background data exist on the basis of which a direct relation can be established between the sum total of international monetary reserves and the volume of world trade, there can be no doubt, if the long view is taken, that the slowness of the growth of international liquidity in comparison with the expansion of world trade is causing a number of balance-of-payments distortions. Hence the increasing need to solve the problems linked to international liquidity and to the impact of radical changes in the level of reserves on each individual country's internal monetary policy. These problems often take the form of pressures on the level of employment, on the stability of prices or exchange rates and on economic growth.

From the standpoint of the developing countries, the difficulty is more acute, in view of the relatively low level of their international reserves, the fluctuations in their export earnings, and their growing need to increase their capacity to import in order to meet the require-

⁸² *Supplementary Financial Measures*, op. cit., p. 64.

ments of steady and well-ordered economic development.

It is almost universally agreed that the level of international monetary liquidity should be raised, and that deliberate action should be taken to this end. In other words, it will not do to go on, as hitherto, augmenting the reserves of central banks by steadily-diminishing amounts of gold, or maintaining the balance-of-payments deficits of countries with reserve currencies (the United States, and, in a progressively lesser degree, the United Kingdom), or adding to the number of reserve currency countries.

Some proposals, such as the revaluation of gold (or others, like the establishment of a system of fluctuating exchange rates, which in practice may also imply a currency devaluation) were officially rejected at the outset of the discussions of the Group of Ten.⁸³ On the grounds that they were not technically covered by the concept of "reserves", the same attitude was adopted towards certain short-term swap operations—of which in practice only a very limited number of countries can avail themselves—or the extension of facilities of the medium-term stand-by type granted by the International Monetary Fund, although in the latter case, if the credits did not have to be refunded within a given period, they could be regarded as comparable to reserves.

The existing system for increasing reserves contains an element of uncertainty deriving from the risk of a sudden large-scale conversion of reserve currencies into gold, which would cause a sharp contraction in the volume of means of payment, with consequent repercussions on world trade. Acceptance of the principle that the world supply of long-term reserves should be subject to planned control may eliminate this uncertainty.

After prolonged discussion of possible solutions, the Group of Ten prepared an outline plan for the reform of the international monetary system, which was unanimously adopted at the Annual Meeting of the Board of Governors of the International Monetary Fund (Rio de Janeiro, Brazil, 1967). This plan provides for the establishment of what are termed "special drawing rights".

⁸³ Belgium, Canada, the Federal Republic of Germany, France, Italy, Japan, the Netherlands, Sweden, the United Kingdom and the United States of America. Other participants in the proceedings of the Group were Switzerland, and representatives of the International Monetary Fund, the Bank for International Settlements and the Organisation for Economic Co-operation and Development.

The system devised does not fully solve balance-of-payments problems,⁸⁴ but by helping to create an atmosphere of confidence in which all countries would co-operate multilaterally in the solution of international liquidity problems, it might induce some countries—especially those whose reserve position is strong and whose balance of payments regularly shows a surplus—to apply less rigidly restrictive trade policies. Table 13 lists the sums that would be allocated to each of the Latin American countries per annual amount of 1,000 million dollars of special drawing rights established.

Although the possible annual amounts of special drawing rights have not been officially specified, the consensus of opinion places them somewhere between 1,000 and 2,000 million dollars yearly during an initial period of five years (after which the plan would be revised). Thus, the additions to the external payments capacity of countries in the Latin American area, whose total imports in 1966 amounted to 11,000 million dollars and whose gold and foreign exchange reserves at the end of that year totalled about 2,900 million dollars, would really be insignificant; but the procedure might help to create the right international conditions for more important moves towards a monetary system designed to serve the expansion of world trade, which would more adequately take into account the interests of the developing countries.

In this connexion, at the second session of UNCTAD bases for negotiations might be proposed which would satisfy the developing countries' aspirations as regards the problems left outstanding by the plan adopted at Rio de Janeiro.

In the first place it is agreed in all authoritative circles that the amount of special drawing rights to be established in the first basic period would not create any danger of an inflationary expansion of international means of payment. Additional sums might therefore be considered, in conformity with the development trends of world trade.

Secondly, a modification of the proposed outline might also be sought, whereby IMF, instead of making the establishment of special

⁸⁴ When the pound sterling was devalued on 18 November 1967, a consortium of central banks in Western Europe and the United States granted a loan of 1,400 million dollars to IMF for the purposes of a stand-by arrangement with the United Kingdom. This sum should be compared with the 116 million dollars which would be allocated to the United Kingdom per annual amount of 1,000 million dollars of special drawing rights established.

Table 13

ALLOCATIONS TO COUNTRIES IN THE LATIN AMERICAN AREA, IN ACCORDANCE WITH THEIR INTERNATIONAL MONETARY FUND QUOTAS AS AT 30 APRIL 1967, PER 1,000 MILLION DOLLARS OF SPECIAL DRAWING RIGHTS ESTABLISHED

Country	Quota (millions of dollars)	Special drawing rights per 1,000 million dollars (thousands of dollars)
Argentina	350	16,730
Bolivia	29	1,386
Brazil	350	16,730
Chile	100	4,780
Colombia	125	5,975
Costa Rica	25	1,195
Ecuador	25	1,195
El Salvador	25	1,195
Guatemala	25	1,195
Haiti	15	717
Honduras	19	908
Mexico	270	12,905
Nicaragua	19	908
Panama	11.25	538
Paraguay	15	717
Peru	47	2,246
Dominican Republic..	27.80	1,328
Uruguay	30	1,434
Venezuela	250	11,950
<i>Other countries in the Latin American area</i>		
Guyana	15	717
Jamaica	30	1,434
Trinidad and Tobago	25	1,195
TOTAL	1,828.05	87,378

Source: Calculated by ECLA on the basis of the quotas for the various countries, published by IMF.

drawing rights proportional to the quotas of member countries, would allocate to the developing countries an aggregate sum exceeding their total share in the capital of the Fund, which would be distributed among them on a *pro rata* basis, in accordance with their subscriptions.

Thirdly, a great deal of stress had been laid, especially by France, on the fact that a prerequisite for putting the plan into operation

is the elimination of the balance-of-payments deficits of the United Kingdom and the United States. This implies that restrictions will have to be established on the trade or financial flows of these two countries. Agreement would have to be reached on some system to prevent these restrictions from affecting the developing countries, or on effective measures whereby countries with regular surpluses would compensate the decrease in the external income of developing countries resulting from the restrictions. In this connexion, the objectives propounded by the United Kingdom authorities on the occasion of the recent devaluation of the pound sterling were to improve the United Kingdom's competitive position, restrict imports and rechannel investment to the United Kingdom, all of which may to some extent affect the developing countries.

Fourthly, the developing countries have urged the need to link the creation of new reserve assets to the financing of their development. The countries forming the Group of Ten pointed out that two such different conceptual elements as the creation of liquidity and the effective transfer of real resources should not be combined within the scope of a single measure. To that end, long-term commitments might be negotiated, whereby the industrialized countries would undertake to increase their contributions to multilateral financial assistance agencies, irrespective of the counterparts allocated to them in the establishment of special drawing rights.

Lastly, in view of the interest recently shown by various industrialized countries and groupings of such countries in the formation and consolidation of integration movements on the part of developing countries, it might be agreed that the special drawing rights allocated to the developing countries should be used to build up regional funds, in whose administration IMF would take part, and which could be applied, for example, to the formation of common reserves for intraregional compensation of trade balances, or the purchase of long-term securities issued by regional development institutions.

E. SHIPPING

At the second session of the Trade and Development Board's Committee on Shipping (February-March 1967), while no suggestion was made that any of the items relating to shipping proposed at the fourth session of the Board should be deleted from the provisional agenda

for the second session of UNCTAD, it was advocated that attention should be focused on those questions which lent themselves to the adoption of effective measures. To this end, the UNCTAD secretariat was requested to state which of the studies it had been asked to carry out in

that field had reached a sufficiently advanced stage to serve as a basis for a discussion in depth at the New Delhi Conference, emphasis being laid on the desirability that the Conference should concern itself only with final reports.

According to the report to the Committee (TD/B/C.4/22) and other information presented by the UNCTAD secretariat, the studies available for the second session will be those on national merchant marines, the use of containers and other new shipping techniques, and consultation machinery. A number of monographs will also be available, on other topics such as maritime transport in the foreign trade of India and of West Africa, and shipping costs and the trade of developing countries in Asia. Some important and detailed studies on the level and structure of freight rates, conference practices, the adequacy of shipping services and port improvements will not be completed, and only provisional or progress reports will be available on those subjects.

Accordingly, the Committee's discussion of the provisional agenda for the second session of UNCTAD centred on two topics: (a) the shipping industry in developing countries, including expansion of those countries' merchant marines, and (b) international legislation on shipping. The first is the most important of the shipping questions to be considered at the second session of UNCTAD.

The lack of basic studies on most of the other topics will make it difficult to discuss them in depth at the Conference, especially in the case of those relating to the level and structure of freight rates, conference practices and the adequacy of shipping services, which are of vital importance for the developing countries. Nevertheless, to judge from available information on the content and objectives of the studies under way—summarized below under the head of each provisional agenda item and supplemented by various comments and suggestions for action—and from the considerations, proposals and recommendations formulated in the Charters of Tequendama and Algiers, significant progress is likely to be made at the second session of UNCTAD both in the conceptual field and in the satisfaction of specific aspirations on the part of the developing countries.⁸⁵

⁸⁵ See also ECLA, "Latin America and international trade policy" (E/CN.12/773), chapter III, section 4, in particular pp. 165-178, which reviews Latin American shipping and foreign trade; the share of Latin American fleets in the region's foreign trade; the evolution of Latin America's merchant marines; the incidence of

I. REVIEW OF RECENT DEVELOPMENTS AND LONG-TERM TRENDS IN SHIPPING AND INTERNATIONAL LEGISLATION THEREON

The recommendations on shipping in the Final Act of the first session of UNCTAD related mainly to the establishment of consultation machinery and to the adoption of institutional arrangements and procedures for dealing with these questions in UNCTAD. The recommendation on institutional arrangements, methods and machinery led the Trade and Development Board, at its first session, to set up a Committee on Shipping. The establishment of machinery for consultation between conferences and shippers is the subject of item 13 (d) of the provisional agenda for the second session of UNCTAD.

As regards the review of recent developments and long-term trends in the field of shipping, it is expected that at the New Delhi Conference an UNCTAD report will be available similar to that presented at the second session of the Committee on Shipping (TD/B/C.4/25). On that occasion the Committee also approved the outline of an annual review submitted by the secretariat, and requested the secretariat to prepare future reviews along the lines indicated.

The inclusion of international legislation on shipping in the above agenda item will afford an opportunity for general discussion of this question at the second session of UNCTAD, and for a further recommendation on the need for the Committee on Shipping to carry out a study of the problems relating to international shipping legislation. The importance of such a study was unanimously stressed by the developing countries at the second session of the Committee, as well as at the fifth session of the Trade and Development Board. Both the Charter of Tequendama and the Charter of Algiers endorse the request that at the second session of UNCTAD a decision should be adopted to include this study in the work programme of the Committee on Shipping, and that the developed countries should co-operate in its preparation (as in that of other studies on the programme) by furnishing the UNCTAD secretariat with any background data and information they may have at their disposal.

The study would not deal with all aspects of public and private shipping law, but only with matters bearing on trade and development and on commercial relations between ship-

freight, and trends in maritime freight rates in relation to prices of raw material and manufactured products; and policies for modernizing maritime transport in Latin America.

owners and shippers. In this connexion, it should be borne in mind that, for historical reasons and others mentioned when the topic was discussed by the Committee on Shipping and at the fifth session of the Board, existing legislation often fails to reflect the interests and aspirations of the developing countries.

2. LEVEL AND STRUCTURE OF FREIGHT RATES, CONFERENCE PRACTICES AND ADEQUACY OF SHIPPING SERVICES

(a) *Freight rates*

Of the country, commodity and route studies which will form an integral part of the work programme approved by the Committee on Shipping, together with aggregative studies, the most important are the route studies, on which an agreement was reached, not without considerable difficulty, at the special session of the Committee held in July 1966.

According to the above-mentioned report by the UNCTAD secretariat (TD/B/C.4/22), the first step towards carrying out these studies is to identify liner routes which are sufficiently simple for the purposes of practical analysis. The first stage of the work, therefore, will consist in studying several routes in order to find one or two which combine the requisites for such an analysis. This implies extensive preliminary research.

The main object of the studies is to throw more light on the rate-making process. In view of the innumerable factors that come into play, a simplified system of "ideal" or theoretical freight rates would be drawn up for the route or routes under consideration, for comparison with the real rates. This would provide a basis for analysing the special factors which determine the major differences between the two, and making a more objective study of the highly controversial question of "discrimination" in freight rates, as well as of the effects of possible and appropriate changes in the structure of these rates, particularly from the standpoint of the developing countries.

The UNCTAD secretariat is to submit a progress report on its studies of maritime freight rates to the second session of UNCTAD. Although it is impossible, at this stage, to embark upon very full comments, it is worth noting that the Charters of Tequendama and Algiers expressed the grave concern of the Latin American and other developing countries at the fact that conference freight rates are not only continuing to rise but are still discriminatory and restrictive vis-à-vis the developing countries, and

recommended that immediate steps should be taken at the second session of UNCTAD to provide a basis for future action on freight rates. They urged the UNCTAD secretariat to conclude its projected route-by-route studies on freight rates as soon as possible. The Charter of Tequendama also recommended that in fixing freight rates consideration should be given to the need for placing the products of the developing countries on international markets under competitive conditions.

In this connexion it is also worth recalling the resolutions adopted by the Special Committee on Latin American Co-ordination at its meeting at the expert level in July 1966, which stressed the need to establish incentive freight rates to facilitate exports of manufactures produced by developing countries with their own raw materials.

More recently, some of the developing countries have suggested that the losses which the adoption of such incentive rates might entail for shipping lines could be covered by the developed maritime countries themselves, possibly through contributions to an international fund managed by UNCTAD. Although for the time being such a procedure does not seem very feasible, it should be stressed that incentive rates ought not necessarily to constitute a source of loss for shipping lines. In the case of new exports, the corresponding freight charges could be fixed at levels covering only the marginal or additional costs implicit in the transport concerned. As there is often surplus hold capacity in liner vessels, the costs in question would barely exceed those of loading and unloading the goods carried. The development of new export lines might therefore rather prove to be a source of profit for the regular shipping companies, especially if the marginal or additional costs were supplemented by a small extra sum, as the contribution of the trade in question to the other operating costs of liner ships.

Another fairly widespread practice on routes from developing to developed countries is that of charging general cargo rates for semi-manufactures and manufactures. These general cargo rates cover a wide variety of products, and their level is relatively high. This practice may be partly imputable to historical factors, but it none the less constitutes a formidable obstacle to the promotion of new export lines by the developing countries. As such exports did not exist in the past, or were insignificant or sporadic, the conference tariffs are often not adapted to the needs and characteristics of the new products currently or potentially exported by

developing countries. Although several conferences, especially those formed by shipping companies in the developing countries, have taken steps to remedy this situation in recent years, UNCTAD should urge shipping conferences, and shipping companies in developing countries, to take steps to adapt their freight rates with a view to encouraging exports of an increasingly diversified range of manufactures and semi-manufactures from the developing countries.

The tables in annex II contain data on the level of conference freight rates at the end of 1966 for certain important exports from Argentina, Brazil, Chile, Peru and Uruguay, and on the effect of freight rates on the f.o.b. value of those products. The ratio of freight costs to f.o.b. value ranges from 3 to 75 per cent.

(b) *Conference practices*

As an indispensable supplement to the studies on freight rates and in conformity with the work programme of the Committee on Shipping, the UNCTAD secretariat is planning to carry out several special studies on various conference practices which are the cause of complaint on the part of the developing countries. In this case, too, only a progress report by the secretariat will be available for the second session of UNCTAD.

There are some conference practices whose elimination should not entail lengthy study, and on which a decision could be adopted at New Delhi. These include the "closed" nature of many conferences, the inadequate representation of conferences in a number of major ports in the developing countries, and little or no information on freight rates and other transport conditions.

It is of particular importance for the developing countries that conferences should cease to be of a "closed" nature, because of the effects of this practice on the expansion of the developing countries' merchant marines, and because its elimination might enable them to obtain favourable freight rates as an incentive to their trade. At the second session of the Committee on Shipping, the representative of Colombia mentioned that the Flota Mercante Grancolombiana had found difficulty in securing admission to the Japan Latin American East-bound Freight Conference on satisfactory and normal terms, and that the same thing had happened before in the case of other shipping conferences.

The inadequate and ineffectual representation of conferences at many major ports in devel-

oping countries constitutes a serious obstacle to the efficient operation of the machinery for consultation between conferences and shipowners on the one hand, and users or shippers on the other, as the experience of some of the Latin American countries has shown. The need to refer all matters or decisions, even those of minor importance, to the head office of the conference hampers the proceedings of the consultation agencies.

As regards the failure to publish freight rates, although the relevant data are communicated to interested parties where rates for specific types of merchandise are concerned, many conferences continue to insist that information on freight rates as a whole is of a confidential or at least private nature. This has been an awkward stumbling-block for recent studies on problems relating to the level and structure of freight rates. Hence it would seem reasonable to raise this problem at the second session of UNCTAD, with a view to the adoption of a recommendation on the need for publication of shipping conferences' tariffs and for their registration by the competent national authorities in countries to which the conferences run shipping services.⁸⁶ The same may be said of the necessity for conferences to give reasonable advance notice of their intentions or decisions with respect to increases in their freight rates, the levy of surcharges, etc., so as to improve the bargaining position of suppliers and users of shipping services in the developing countries.

The resolutions adopted by CECLA at its meeting at the expert level (July 1966) may be recalled in this connexion. They reaffirmed the principle of "participation of shipping lines of developing countries in shipping conferences, on equitable terms". Stress was also laid on the progress achieved by LAFTA with the signing of the Water Transport Agreement, which provides for the constitution of shipping conferences to serve intra-regional trade, their supervision by the appropriate government agencies and the publication and unification of their freight rates, together with the establishment of machinery for consultation between conferences and shippers' councils.

With regard to certain conference practices, the Charter of Tequendama once again stressed the need for UNCTAD to recommend recogni-

⁸⁶ It should be pointed out, in this regard, that under current legislation in the United States, liner conferences operating services from and to United States ports must register their freight rates and other conditions of carriage with the United States Federal Maritime Commission.

tion of the right of shipowners in developing countries to take part in freight conferences on an equal footing with shipowners of the developed countries, and the right of the developing countries to be fully informed of the structure and fixing of freight rates and other conditions of carriage applied to products involved in their trade.

(c) *Technical advances in shipping, including container ships*

This item is not explicitly included on the provisional agenda for the second session of UNCTAD, but reference should be made to the topic on account of its importance for the development of shipping lines, and its close connexion with conference and freight problems. The UNCTAD secretariat has prepared a preliminary study on the subject.⁸⁷

Although no precise information is available for the moment, a more detailed study on these and other new techniques may possibly be presented at the second session of UNCTAD, according to a statement made by the UNCTAD secretariat to the Committee on Shipping. Furthermore, at a United Nations seminar on these problems (London, May 1967), the ECLA secretariat presented a provisional analysis of the questions raised by the introduction and application of such new techniques in the region's maritime transport.

These matters are unlikely to be discussed in depth at the forthcoming session of UNCTAD, but they are clearly of vital importance to the developing countries on account of their repercussions on the organization and structure of shipping conferences, cost levels, the structure of freight rates, and port operation and organization techniques.⁸⁸

The introduction and efficient utilization of these new techniques calls for the adoption of various regulatory and administrative measures, which have a pressing claim on the attention of governments and responsible authorities. In Latin America, the Governments of Argentina and Brazil have already taken action to facilitate and encourage the use of container ships in maritime transport.

It therefore seems desirable for these questions to be the subject of an UNCTAD recommendation to the effect that the Committee on Shipping, in co-operation with the regional

⁸⁷ "Basic economics of containerization and unitization in ocean shipping" (TD/B/C.4/34).

⁸⁸ See "Latin America and international trade policy", *op. cit.*, p. 180.

economic commissions, should undertake a study on regulatory measures, which will necessarily have to be largely uniform throughout the various regions of the world. The co-operation of shippers' councils and consultation agencies would be very useful for these purposes.

3. THE SHIPPING INDUSTRY IN DEVELOPING COUNTRIES INCLUDING EXPANSION OF THESE COUNTRIES' MERCHANT MARINES

As mentioned above, it was stated at the most recent session of the Committee on Shipping that this would be the focal point of the discussion on shipping problems at the second session of UNCTAD, largely because by that time the UNCTAD secretariat would have prepared the first basic study on the subject. This study will analyse the role of merchant marines in economic development and the pertinent economic investment criteria, both from the standpoint of enterprises and their commercial viability and from that of the economy as a whole, taking into account the over-all economic implications of merchant marines and the comparative economic merits of investment in merchant shipping and in other sectors of the national economy. It will include a comparison of various possibilities for investment in the shipping industry: in liner shipping or bulk-carrier tramp steamers, in new or second-hand ships, or in purchased or chartered vessels. It will also devote attention to the general problem of financing the development of merchant marines.⁸⁹

Presumably, during the proceedings of the second session of UNCTAD, the traditionally-maritime developed countries will reaffirm their objections to certain practices whereby the developing countries endeavour to protect and develop their incipient merchant marines, on the grounds that they are of a discriminatory character. In this connexion, it is apposite to recall the principles incorporated in the Declaration on Policy with respect to Maritime, River, and Lake Transport approved at the meeting of Ministers of Foreign Affairs of the Contracting Parties to the Montevideo Treaty (November 1965), and also earlier resolutions adopted by the Special Committee on Latin American Co-ordination (CECLA).

⁸⁹ According to the latest information from the UNCTAD secretariat, an important study will be made analysing problems relating to the establishment or expansion of merchant marines in developing countries, and a shorter document will be prepared summarizing that study and the conclusions reached.

The declaration in question, after establishing the objective of encouraging the maintenance and promoting the development of the merchant marines of the LAFTA countries, emphasizes the need for member countries' own shipping to be guaranteed a prior right to carry a substantial proportion of intra-regional trade cargoes, and for the countries of the Area to possess sufficient hold capacity to meet the transport requirements of a substantial proportion of their world trade. The LAFTA countries will take concerted action to defend their common transport policy, protect the development of their merchant marines and ensure their own freighters a satisfactory share in their world trade.⁹⁰

At its July 1966 meeting, CECLA reaffirmed the inalienable right of countries to reserve a substantial proportion of their foreign trade cargo for transport under their own flags. Although the developing countries have repeatedly endorsed these principles at the first session of UNCTAD and in the UNCTAD Committee on Shipping, mention should be made of the reaffirmation of these aspirations in the Charters of Tequendama and Algiers. In similar or identical terms, they reaffirm the inalienable right of the developing countries to establish and to expand their merchant marines in relation to the freight position and prospects generated by their foreign trade. In addition, the measures adopted by the developing countries to achieve those objectives, including the reservation of a large and equitable share of the cargo transported to and from those countries, should not be regarded as discriminatory nor should they lead to the adoption by the developed countries of retaliatory or other measures which might have the effect of nullifying the measures taken by the developing countries. Moreover, the second session of UNCTAD should adopt measures to ensure that the developed countries and international credit agencies extend financial and technical assistance for the establishment and expansion of merchant marines in developing countries, and lay down criteria to ensure that such financing is granted to genuinely national enterprises.

In the ECLA study quoted above,⁹¹ reference was made to the adverse reactions produced in certain world shipping circles by the signing of the LAFTA countries' Water Transport Agreement, inasmuch as it constitutes the first

regional-scale reservation of cargo through an inter-governmental agreement.

At its fifth annual session (Viña del Mar, Chile, June 1967), the Inter-American Economic and Social Council (IA-ECOSOC) adopted a resolution concerning the Declaration on Policy with respect to Maritime, River and Lake Transport and to the Water Transport Agreement. In the preamble to this resolution, it is pointed out that the provisions of the Water Transport Agreement establish principles which differ from those traditionally governing maritime transport but are consistent with the needs and the real social and economic situation of Latin America, relating to such questions as a system of freight conferences under government supervision; establishment of freight rates on the basis of certain predetermined principles, and the need for them to be submitted to the Contracting Parties for approval; and representation of users' interests through the creation of shippers' councils. In the operative part, it is recommended that support should be given to the Latin American countries' maritime transport programmes as an effective contribution to their economic development, and that endeavours should be made to ensure that as far as possible all the developed countries co-operate in such programmes.

The resolution was unanimously adopted by the Latin American countries. The delegation of the United States expressed sympathy with the Latin American countries' aims, but objected that some of the provisions of the Water Transport Agreement would not efficiently promote economic development. It disapproved, in particular, of the provisions relating to the reservation of cargo and mandatory membership of freight conferences for shipowners; such principles could only have the effect of pushing up freight rates, which would hamper rather than promote intraregional trade and would limit the scope of the Latin American common market.

Commenting on the doubts expressed by the United States delegation, the Chilean delegation said that the Water Transport Agreement established fair and healthy competition, while preventing the sort that serves to create chaos in maritime transport and makes it possible, in the long run, for the strongest competitor to monopolize freight traffic by displacing his weaker rivals. Some of the provisions of the Agreement would make for the carriage of a larger share of cargo under Latin American flags, and would therefore lead to an improvement in balance-of-payments positions, thus speeding up the integration process which was

⁹⁰ See also "Latin America and international trade policy", *op. cit.*, pp. 175-177.

⁹¹ *Ibid.*, pp. 176-177.

to culminate in the common market. The same delegation drew attention to the magnitude of the subsidies granted by developed countries, including the United States, to their merchant marines, and to the measures adopted by the United States Government to reserve specific types of cargo for its own merchant fleet.

4. MACHINERY FOR CONSULTATION ON SHIPPING PROBLEMS

The Committee on Shipping, at its second session, discussed a comprehensive secretariat study and adopted a resolution laying down guidelines for future action. In this resolution, it called on the regional economic commissions to continue their efforts, in co-operation with the UNCTAD secretariat, to establish shippers' councils and national and regional consultation machinery along the lines laid down in the resolution.⁹² It also stresses the importance of United Nations technical assistance programmes for the attainment of the objectives indicated.

The UNCTAD secretariat study will be widely distributed and available for discussion at New Delhi. As the Trade and Development Board, at its fifth session (August-September 1967), expressed the view that this agenda item was ready for consideration, relevant measures could be adopted at the forthcoming session of UNCTAD.

Latin America's experience in this field has demonstrated that for the establishment and efficient operation of shippers' councils it is very important that close contact should be maintained between such councils and the ECLA secretariat. There has been a continual exchange of information with the councils, which has provided measures of guidance for their ac-

⁹² See "Consultation in Shipping. Establishment of national and regional shippers' bodies; consultation and negotiation between shippers and shipowners" (TD/B/C.4/20/Add.2), for information on ECLA's activities in this field.

F. TRADE EXPANSION AND ECONOMIC INTEGRATION AMONG DEVELOPING COUNTRIES

Trade between developing countries has been growing at a very slow pace—more slowly than their trade with industrialized countries, according to recent UNCTAD and GATT studies.⁹³

⁹³ "Examination of measures for the expansion of commodity trade among developing countries", report by the secretariat of UNCTAD (TD/B/C.1/27) and "Trade among developing countries", report by the secretariat of GATT (Com.TD/D/W.3). For further details, see *Trade expansion and economic co-operation among developing countries* (United Nations publication, Sales

activities. However, as far as is known, the Latin American Governments have not made use of technical assistance programmes for the organization of consultation machinery, as envisaged in the Committee on Shipping's resolution.

In these circumstances, it seems desirable to suggest that the second session of UNCTAD should adopt a resolution endorsing that of the Committee on Shipping, and inviting the Committee to draw up a specific action programme, in co-operation with the United Nations Development Programme, to establish national and regional consultation machinery, priority being given to the establishment and improvement of national systems.

5. PORT IMPROVEMENT

The UNCTAD secretariat has stated that no significant study on port development can be prepared prior to the New Delhi meeting. Presumably, therefore, discussion of these problems in depth will not be possible.

The resolutions adopted by the Special Committee on Latin American Co-ordination (CECLA) at its July 1966 session should be recalled in this connexion. In these resolutions, CECLA recognizes the need to step up efforts to improve port conditions at all levels, but considers that national resources are inadequate for this task, whose the fulfilment of which will largely depend on technical and financial assistance. In almost identical terms, the Charters of Tequendama and Algiers reaffirm the position taken at the first session of UNCTAD and in the Committee on Shipping on improvements in port operations. They stress that the New Delhi meeting should adopt practical measures to ensure that the savings obtained from the improvement of port facilities are of immediate benefit to the developing countries through reduction of the freight rates applicable to ports where such improvements are made.

Moreover, it is under-diversified, since 80 per cent consists of primary products (petroleum, 40 per cent; foodstuffs, 25 per cent; raw materials, 15 per cent). Trade in manufactures has increased proportionately more than commodity trade, but the absolute figures involved are still very modest, and it is confined to a few light-

No.: 67.II.D.2), and *Trade expansion and economic integration among developing countries* (United Nations publication, Sales No.: 67.II.D.20).

industry products. In the Latin American integration areas, however, reciprocal trade has been expanding rapidly. In the countries of the Latin American Free Trade Association, imports and exports rose from 660 million dollars in 1961 to 1,460 million in 1966 (i.e., by 122 per cent); in the Central American Common Market, they increased from 36.8 million dollars to 176.3 million over the same period (i.e., by 379 per cent).

The sluggishness of the developing countries' reciprocal trade can be largely ascribed to the persistence of certain unfavourable structural factors. The economic, financial and trade links between developing States and industrialized countries continue in force, and with them the traditional trade flows. The resulting orientation of the transport and communications systems and trade channels in specific directions substantially raises freight costs and hampers communications between developing countries. Their production patterns are often such that supply is ill-adjusted to market requirements, and their industrial development policy is frequently implemented in watertight compartments with no attempt at co-ordination. Inadequate scales of production raise the costs and thus undermine the competitive capacity of the lines of production concerned, which are maintained by means of strong tariff protection that prevents access of similar products from other developing countries.

Other factors militating against the expansion of trade between developing countries include the precarious financial position of many developing countries, which limits their capacity to compete with industrialized countries in extending credit facilities to buyers; deficient administrative organization in the fields of trade, finance and insurance, which leads to troublesome formalities; and unequal competitive conditions vis-à-vis industrialized countries, which subsidize production and exports or operate on the basis of concessions.

The preferential tariffs granted by some developing countries for products from certain developed nations (reverse preferences) seriously limit the prospects for expansion of trade between developing countries.

Latin America's share in total trade between developing countries (excluding its intra-regional trade) is insignificant and is confined to a few traditional commodities. Petroleum and petroleum products, raw cotton and meat account for 60 per cent of its exports, and these plus coffee, sugar and some tropical fruits, for over 80 per cent. Its trade is also characterized by

a high degree of concentration as regards buyers, since Yugoslavia, Egypt, Hong Kong, Israel, China (Taiwan), India and South Korea absorb 60 per cent of Latin America's exports to developing countries. In those markets there is keen competition between some items, such as meat, wheat, cotton, petroleum products, and other similar products from the industrialized countries. This shows that there is a wide margin for substitution if negotiations for securing that the developing countries accord one another preferential terms not applicable to industrialized countries are successful.

Both GATT and UNCTAD have made considerable headway in analysing and formulating measures which might contribute to the expansion of this trade and to the economic integration of developing countries, and little remains to be done except to provide the appropriate instruments for their implementation.

GATT attaches major importance to the negotiation of tariff and non-tariff concessions between developing countries, while not neglecting to explore other ways of expanding their reciprocal trade. The negotiations have been in the hands of an unofficial group of twenty developing countries, fourteen of which presented provisional schedules as a basis for the negotiations. Only ten of these countries, including five Latin American States (Argentina, Brazil, Chile, Peru and Uruguay)⁹⁴ have expressed a wish to continue this exploratory work. Some working hypotheses and basic rules have been suggested for these negotiations and it is proposed that a negotiations committee should be set up, consisting of representatives of the interested Latin American countries, whose first task would be to discuss these rules.

UNCTAD, in studies carried out by a committee of experts and the secretariat,⁹⁵ adopts a much broader and more complex approach, the objective being to achieve substantial changes in supply conditions by means of changes in the structure of production and demand, as well as in the channelling of developing countries' trade flows. With that end in view, it considers and proposes measures not only for the elimination or reduction of trade barriers among those countries, but also in relation to investment and financing, payments problems and export credits. Stress is also laid on the importance of identi-

⁹⁴ The other five countries are India, Pakistan, Yugoslavia, Israel and the United Arab Republic.

⁹⁵ See *Trade expansion and economic co-operation among developing countries*, op. cit., and *Trade expansion and economic integration among developing countries*, op. cit.

fyng possibilities, problems and procedures relating to the economic integration of developing countries. Other suggested measures to promote the expansion of trade and economic co-operation between developing countries relate to international support for achieving balanced development (with particular regard to the position of the less developed countries), to the investment policy of developing countries (with emphasis on multinational investment), to ways of facilitating the financing of trade flows, and to the provision of technical assistance.⁹⁶

Both the Charter of Tequendama and the Charter of Algiers take up many of these suggestions, although special importance is attached to a number of measures which deserve priority or offer more definite possibilities for the expansion of trade between developing countries and their economic integration. Thus, the Charter of Tequendama stresses the desirability of strengthening and speeding up processes of regional and sub-regional economic integration as the most appropriate method of expanding intra-area trade and of promoting the harmonious development of the countries participating in those processes, and sets forth basic principles for the elimination of barriers impeding such expansion. In the Charter of Algiers specific studies are requested with a view to the establishment of country groupings or national and regional export promotion centres, and the establishment and improvement of multilateral payments systems between developing countries. It also advocates the adoption of a number of principles and convergent measures as a basis

⁹⁶ See "Trade expansion, economic co-operation and integration among developing countries" (TD/B/137/Add.1), which summarizes the suggestions contained in the publications referred to in the previous footnote.

for international action by developed and developing countries to attain the proposed objectives. The developing countries are also urged to inform UNCTAD, at its second session, of the efforts they are making or planning to make in order to increase their trade and strengthen their economic co-operation, particularly in the field of inter-regional, regional and sub-regional co-operation. In this respect, and more specifically in relation to regional economic integration, the Declaration of the Presidents of America contains provisions which form the basis for a programme of objectives established by the Latin American countries themselves as a step towards the establishment of a regional common market.

The following are some possible additional measures: the harmonization of development plans, or at least of investment projects, with a view to co-ordinating industrial and agricultural production and infrastructural improvements in the developing countries; specialization of regional and sub-regional development banks; and the conclusion of agreements to facilitate purchases between developing countries with funds made available under programmes of aid from developed countries.

As proposed in the Charter of Algiers, it would be desirable to set up a special working group at the second session of UNCTAD to study the most important or pressing practical questions and problems, and the above-mentioned measures, without prejudice to the simultaneous establishment of a permanent committee whose task would be to study all matters relating to the expansion of trade between developing countries and their economic integration and whose most urgent activities are described by the Group of 77 in the Charter of Algiers.

G. SPECIAL MEASURES IN FAVOUR OF THE RELATIVELY LESS DEVELOPED COUNTRIES

The international community has accepted the principle that measures to improve external sector conditions in the developing countries should include special treatment for the relatively less developed countries. An attempt should be made to counteract as far as possible the handicaps of under-development which prevent these countries from taking advantage of opportunities that might present themselves, and to make an effective contribution towards bridging the gap between their levels of income and those of other countries.

This principle has also been accepted and effectively applied in the Latin American Free Trade Association. It appears as one of the principles of Latin American economic integration in the Declaration of the Presidents of America (14 April 1967), which states, in this regard, that "the different levels of development and economic and market conditions of the various Latin American countries must be borne in mind, in order that the integration process may promote their harmonious and balanced growth. In this respect, the countries of rela-

tively less economic development, and, to the extent required, those of insufficient market, will have preferential treatment in matters of trade and of technical and financial co-operation". To this end, the Declaration recommends action to facilitate free access of products from the relatively less developed countries to the market of the other LAFTA countries, and the installation and financing in those countries of industries intended for the enlarged market, and to secure preferential conditions in the sub-regional agreements in which they have an interest.

There are, notwithstanding, practical difficulties in applying the principle of granting special treatment to the relatively less developed countries.

In the first place, it is difficult to formulate objective criteria for identifying which are the relatively less developed countries. The problems involved are similar to those encountered in establishing the difference between developed and developing countries, and are perhaps even more difficult. These difficulties are further increased by the differences between the various developing areas. Experience so far has shown that the use of various economic indexes and theoretical principles to define different degrees of economic development has not yielded sufficiently convincing and satisfactory results, and that equally or even more acceptable results could be obtained by using empiric methods. Thus, the second session of UNCTAD should discuss the possibility that the countries within each region should themselves determine which of their group should be considered relatively less developed. So far as Latin America is concerned, there is already general agreement on which countries should be so described.

Difficulties are also encountered in specifying the nature, scope and operational procedures of the special measures to provide more favourable treatment for the relatively less developed countries.

In the Charter of Algiers, the developing countries recognized that it would be premature to define the appropriate combination of special measures, but stated that they could derive from joint action in the following spheres: (a) commodity policy, including measures of financial and technical assistance for diversification programmes; (b) preferences in trade in manufactures and semi-manufactures; (c) development finance; (d) regional economic integration; (e) invisibles; and (f) trade promotion.

In view of the complexity of the questions involved in these six spheres of action, the Algiers Meeting decided to establish a working group composed of representatives from fifteen countries (five in each regional group), which should meet between 1 December 1967 and 15 January 1968 to make specific proposals for action in each of those spheres.

The Charter of Algiers sets forth a number of criteria on several topics. With regard to commodity policy, it recommends that special consideration should be given at the second session of UNCTAD to the needs of the less developed countries in relaxing tariff and non-tariff barriers affecting access to the markets both in tropical and temperate zone products. It also recommends temporary refunds, at least in part, of revenue charges and duties on commodities of particular interest to the least developed countries.

With regard to trade in manufactures and semi-manufactures, it recommends the application of measures to ensure that, in establishing a general system of preferences, the developed countries should give special treatment to the relatively less developed countries. More specifically, the preferential system must be conceived in such a way as to make possible for the least advanced among developing countries to share in its benefits. Any time limits of the system should be flexible so that countries at present in the primary stages of development will eventually be able to reap its advantages. Escape clause actions limiting or excluding particular exports should not apply to the less competitive products from less advanced countries. It is likewise recommended that specific commitments should be undertaken to provide technical and financial assistance for the establishment in those countries of export-oriented industries, with a view to markets both in the developed world and in other developing countries.

The experience acquired in the operation of such a system of preferences should make it possible to identify other appropriate and feasible measures which could be adopted in favour of the relatively less developed countries, in addition to those already mentioned, to enable them to take full advantage of the opportunities provided by that system. To these measures could be added others, such as that contained in the Declaration of the Presidents of America and repeated in the Charter of Tequendama, recommending that, under-regional or sub-regional economic integration agreements, due consideration should be given to the special situation of the relatively less developed coun-

tries by granting them commercial, financial and other advantages.⁹⁷

It is essential, on the other hand, that in considering and proposing specific provisions in each of the different spheres in favour of the relatively less developed countries, care should be taken to ensure that the nature and

⁹⁷ Article 32 of the Montevideo Treaty provides for special measures in favour of the economically relatively less developed countries in the LAFTA Area, and in particular, the granting of advantages not extended to the other Contracting Parties. Moreover, consideration is being given in LAFTA to a proposal that non-reciprocal tariff preferences might be granted to economically relatively less developed countries in Latin America, as

scope of these provisions should not unduly or unnecessarily affect the interests of the remaining developing countries.

requested by those countries on many occasions. In this connexion, the LAFTA Council of Ministers, in its resolution 196 adopted at the Asunción meeting (August 1967), requested that "after the necessary supplementary studies had been made, the Standing Executive Committee should submit to the Council of Ministers at its third meeting proposals regarding the Association's policy on non-reciprocal tariff preferences which the LAFTA countries might grant to Central America or Panama, and which would be extended only to economically relatively less developed countries", and that "when it considered it appropriate, the Council should submit the matter to the LAFTA-CACM Co-ordinating Committee."

H. EXPANSION OF TRADE WITH THE CENTRALLY PLANNED ECONOMIES

Total Latin American exports to the centrally planned economies expanded considerably in the period 1960-1966. The total value of these exports in 1966 was 211 per cent higher than in 1960, which reflects a more rapid rate of growth of exports to socialist markets than in other developing areas (see table 14). However, this rate of growth is lower and the absolute figures are considerably smaller if the export figures for Cuba are excluded from the total. Excluding Cuba, total Latin American exports to the socialist countries rose from 149 million dollars in 1960 to 400 million in 1966 (168 per cent). Even so, this still represents a higher rate of growth than in other developing areas.

These high growth rates are partly the result of the relatively low level of the absolute export figures for the base year. The proportion of total exports represented by exports to the socialist countries has undoubtedly increased, but

it still remains relatively low. Once again mention should be made of the effect of the inclusion of the export figures for Cuba. If Cuba is included, the proportion of Latin American exports to the socialist countries rose from 3.6 per cent in 1960 to 8.3 per cent in 1966; in contrast, if Cuba is excluded, the corresponding increase was from 1.9 to 3.7 per cent.

In analysing the recent development of Latin American exports to the socialist countries, it is preferable to consider Cuba separately from the rest of the region. As is indicated in table 15, in 1960 Cuban exports to the socialist countries almost equalled in value the exports of all the remaining Latin American countries to the same area. However, there was a radical change in this situation after 1961, since while Cuba's exports in that year tended to be mainly channelled towards the socialist markets (its exports to other areas declining), those of the

Table 14
EXPORTS FROM THE DEVELOPING AREAS TO THE SOCIALIST COUNTRIES, 1960-66
(Millions of dollars)

	<i>Latin America</i>	<i>Index</i>	<i>Africa</i>	<i>Index</i>	<i>South East Asia</i>	<i>Index</i>	<i>Middle East (Asia)</i>	<i>Index</i>	<i>Total developing areas</i>	<i>Index</i>
1960	305	100	375	100	470	100	70	100	1,215	100
1961	580	190	325	87	485	103	80	114	1,475	121
1962	615	202	300	80	540	115	110	157	1,560	128
1963	550	180	410	109	585	124	130	186	1,675	138
1964	710	233	420	112	660	140	150	214	1,940	160
1965	935	307	570	152	740	157	135	193	2,380	196
1966	950	311	560	149	790	168	150	214	2,450	202

Source: GATT, "Network of total international trade". In: *International Trade 1966* (1967).

other Latin American countries remained at their 1960 levels and the increases recorded in the succeeding years were relatively lower than the increases in Cuban exports. Consequently, the total value of Cuban exports to socialist markets has been much higher since 1961 than that of the exports from the rest of Latin America. While the higher growth rate of Cuban exports to the socialist countries is mainly the result of a diversion of trade, the increase in exports from the remaining Latin American countries represents to a large extent a creation of trade.

There are other aspects which should be emphasized in the recent development of export trade between the two areas under consideration.

Between 1960 and 1963 the growth of Latin American exports (excluding Cuba's) was relatively small in absolute terms, but significant increases were recorded in 1964 and 1965. The upward trend was halted in 1966, when there was an increase of only 5 million dollars in relation to 1965. The growth of Latin American exports (excluding Cuba's) to the socialist area was, therefore, mainly confined to 1964 and 1965, and the factors which helped to determine that growth should therefore be examined in more detail.

It should be pointed out, in the first place, that the number of Latin American countries exporting to socialist markets is very small; in point of fact about 80 per cent of Latin

Table 15
EXPORTS FROM COUNTRIES IN THE LATIN AMERICAN AREA TO
THE SOCIALIST COUNTRIES, 1960-66

(Millions of dollars)

	1960	1961	1962	1963	1964	1965	1966
Argentina	61.1	56.5	78.7	55.1	152.7	196.2	227.1
Bolivia	—	—	—	—	—	—	—
Brazil	71.3	75.2	73.2	92.4	88.3	89.0	105.2
Colombia	2.2	2.0	1.1	3.6	7.4	9.9	15.9
Chile	0.6	1.2	1.2	2.2	2.3	7.3	5.5
Ecuador	—	0.1	0.1	0.7	—	—	—
Mexico	1.0	0.2	6.0	3.6	17.5	61.2	8.5
Paraguay	—	—	—	—	—	—	—
Peru	0.1	0.2	2.0	7.9	11.8	15.3	21.3
Uruguay	13.1	14.3	24.1	11.1	13.0	10.1	16.4
Venezuela	—	—	—	0.1	0.1	3.0	0.1
LAFTA countries	149.4	149.7	186.4	176.7	293.1	392.0	400.0
Costa Rica	—	—	—	—	—	0.2	0.6
El Salvador	—	0.2	0.2	0.4	0.6	3.7	0.3
Guatemala	—	—	—	—	—	—	—
Honduras	—	—	—	—	—	—	—
Nicaragua	—	—	—	—	—	—	—
CACM countries	—	0.2	0.2	0.4	0.6	3.9	0.9
Haiti	—	—	—	—	—	—	—
Panama	—	—	—	—	—	—	—
Dominican Republic	—	—	—	—	—	—	—
Guyana	—	—	—	—	—	—	—
Jamaica	—	—	—	—	—	—	—
SUB-TOTAL	149.4	149.9	186.6	177.1	293.7	395.9	400.9
Cuba	147.2	453.1	412.8	353.9	410.8	522.1	...
TOTAL	296.6	603.0	599.4	531.0	704.5	918.0	400.9

Source: ECLA, on the basis of official foreign trade statistics.

Note: No reason could be established for the slight discrepancies between the country data and the over-all data in the previous table.

American exports (excluding Cuba's) in 1964-66 were from only two countries—Argentina and Brazil—, the rest being mainly from Colombia, Mexico, Peru and Uruguay. Secondly, the increase in exports in 1964-66 in relation to 1960-63 was mainly confined to Argentina and on occasion (in 1965) to Mexico. Table 15 shows that it is not possible to generalize on the development of exports from individual countries, since while in some cases there were periods of relative stagnation (in Argentina between 1960 and 1963, and in Brazil between 1960 and 1965), in others there were sharp fluctuations (mainly in Mexico and Uruguay) or growth was sustained but of little significance in absolute terms, as in Colombia and Peru.

Moreover, there is a high degree of concentration with regard to the destination of these exports, as well as to their origin. In 1964-66 the bulk of Latin American exports (excluding Cuba's) went to the Soviet Union, Eastern Germany, Czechoslovakia, Poland and mainland China. The growth of exports in Argentina mainly took the form of increased sales to the Soviet Union and mainland China. In the case of Brazil, on the other hand, the share of the Soviet Union declined in 1965-66 in relation to 1963-64, while sales to Eastern Germany, Czechoslovakia and Hungary increased. Generally speaking, the exports of every Latin American country fluctuated greatly throughout this period with regard to their destination, which is undoubtedly attributable to the relatively short period of the trade agreements under which these exports were made.

The trade of certain Latin American countries with the socialist area is mainly based on short- and medium-term bilateral agreements which usually include indicator lists of products and have a bilateral payments mechanism, with limited-swing credits whose balances can normally be spent only in the debtor country. Convertible-currency transactions have generally been limited to exports to mainland China, some of the agreements with Czechoslovakia and the purchase of cereals from Argentina by the Soviet Union. In any event, it would seem that the predominance of strict bilateralism in trade between the Latin American and socialist countries is the main factor limiting expansion of this trade. Other restrictive factors include the preference of Latin American importers for products and well-known brands from the market-economy industrialized countries, deficiencies in sales promotion and a lack of communication between exporters on both sides, and a certain amount of insecurity regarding

the future supply of spare parts and the servicing of equipment purchased from the socialist countries.

Some of these limitations and deficiencies are tending to disappear, particularly with a new type of trade agreement such as that signed between the Soviet Union and Brazil in August 1966. Under this agreement, the Soviet Union guarantees to supply Soviet machinery and equipment of various kinds for a period of three years and to a value of 100 million dollars, with credit over a period of eight years and at an annual interest of 4 per cent. In January 1967 a similar agreement was signed between Chile and the Soviet Union to a value of 15 million dollars (with the direct participation of the private sector to the amount of some 2 million dollars). An important feature of these agreements is that the loans can be partly repaid in the form of exports of manufactures from the Latin American countries (25 per cent in the case of Brazil and 30 per cent in the case of Chile).

Although these agreements are still based on trade and financial bilateralism, they offer greater flexibility, with the use of convertible currency in reciprocal accounts and a clause enabling trade balances to be transferred to third countries, subject to the agreement of the contracting parties. Another aspect that should be mentioned is the procedure applied in regard to the most-favoured-nation clause in the trade agreement between the Soviet Union and Chile, which stipulates that the advantages, exemptions and privileges established under that clause shall not include those granted by either of the contracting parties to bordering countries, those deriving from possible customs unions, or those granted by Chile to any other Latin American country because of its participation in free-trade areas or other regional economic pacts.

It is not yet possible to evaluate the potential contribution of this new type of trade agreement to the establishment of stable and permanent trade flows between the two areas, or to judge whether these agreements will be extended to a greater number of countries. In any event it should be pointed out that one of the objectives agreed upon at the first session of UNCTAD—the establishment of long-term trade agreements—has not been attained, although it is impossible to say at this point who is responsible for the difficulties or obstacles in the way of their negotiation.

The Latin American countries are undoubtedly interested in promoting greater trade with the socialist countries and have, for that purpose,

reaffirmed in the Charter of Tequendama some of the principles and bases for increasing such trade. The measures suggested by the Latin American countries in the Charter are meant to be the equivalent of the free access and preferential treatment which the developing countries are requesting from the developed countries, measures which if properly implemented would make it possible to take advantage of the great potential for mutual trade between countries of the two areas. To this end, the Latin American countries feel that it is necessary that:

(a) The socialist countries should include in their purchasing plans increasing volumes of products from developing countries and assign to these countries an ever-growing share of the increase in their imports of manufactures and semi-manufactures;

(b) The socialist countries should take the necessary steps to reduce the margins between

the import prices and domestic selling prices of products from developing countries, and thus promote consumption of those products;

(c) Under those bilateral agreements with developing countries in which provision is made for reciprocal payments accounts, greater flexibility should be given to the use of the developing countries' credit balances both within and outside the socialist area, and machinery should be established for a gradual increase in the proportion of bilateral trade which is paid for in convertible currency;

(d) Preferential access should be given to products from developing countries, including the establishment, in the socialist countries' purchasing policy, of margins of tolerance with regard to prices and delivery terms.

(Annex I appears overleaf)

UNITED STATES, EUROPEAN ECONOMIC COMMUNITY (EEC), UNITED KINGDOM
IMPORTS OF PRODUCTS

BTN	Products	United States				
		Tariff duties		Non-tariff restrictions, etc.	Tariff duties	
		Pre-KR	Post-KR		Pre-KR	Post-KR
0201 A	Beef, fresh or frozen	lb. 3¢	(3¢)	—	20%	(20%)
0303	Shellfish and other crustaceans; and molluscs	—	—	—	—	—
	Lobsters	—	—	—	15%	14%
	Shrimps	22.5%	11%	—	—	—
	Clams	20%	14%	—	—	—
	Oysters, in airtight containers	lb. 4.5; 6.0¢	2.2; 3.0¢	—	—	—
	Other	0	0	—	18-25%	12-25%
0801 A	Bananas, fresh	0	0	—	20%	(20%)
0801 B	Coconuts, etc., fresh or dried	—	—	—	—	—
	Coconuts	u. 0.125¢	0	—	5%	2.5%
	Brazil nuts	lb. 1.125¢	0	—	3%	0
	Cashew nuts	lb. 0.7¢	0	—	5%	2.5%
ex 0802 A	Oranges	lb. 1¢	(1¢)	—	15-20%	(15-20%)
ex 0802 B	Other citrus fruit	—	—	—	—	—
ex 0802 B	Grapefruit	lb. 0.9-1.5¢	0.8-1.3¢	—	12%	6%
0901	Coffee	—	—	—	—	—
	Unroasted	0	0	—	16; 21%	9.6; 13¢
	Roasted	0	0	—	25; 30%	15; 18¢
0902	Tea	0	0	—	18; 23%	9; 11.5
ex 0904	Pepper	—	—	—	—	—
	Unground	0	0	—	25%	12.5%
	Ground	lb. 3¢	1.5¢	—	20%	17%
1001	Wheat	60 lb. bushel 21¢	21¢	0; ES	20%	(20%)
1005	Maize	lb. 100; 52¢	(52¢)	—	—	—
1006	Rice	56 lb. bushel 25¢	(25¢)	—	7; 9%	(7; 9%)
	In the husk or husked	lb. 1.25; 1.5¢	(1.25; 1.5¢)	ES	9-16%	(9-16%)
	Polished	lb. 2.5¢	(2.5¢)	ES	—	—
	Broken	lb. 0.3¢	(0.3¢)	ES	—	—
1201 A	Groundnuts	lb. 4.25¢	(4.25¢)	0; ES	0	0
1201 C	Castor oil seeds	lb. 0.25¢	0	—	0	0
ex 1507	Vegetable oils	—	—	ex 0; ex ES	—	—
	Olive oil	lb. 3.8¢ ^b	(3.8¢)	—	17; 20%	(17; 20)
	Coconut oil	lb. 0.5¢	(0.5¢)	—	—	—
	Palm oil	lb. 3¢	(3¢)	—	9; 14%	(9; 14¢)
	Soya bean oil	45%	22.5%	—	—	—
	Castor oil	lb. 1.5¢	7.5%	—	ex 0; 8%	(0; 3¢)
	Oils for industrial use (except castor oil)	—	—	—	5; 8% (0) ^d	0
1602	Other prepared meats	—	—	—	20-22%	16-20
	Beef in airtight containers	15%	7%	—	*25; 26%	(25; 26)
	Beef, salted or smoked	10%	10%	—	—	—
	Pork	lb. 3¢	lb. 3¢	—	—	—
	Other	lb. 3¢	(3¢)	—	—	—
1603	Meat extracts and meat juices	10; 20%	5; 10%	—	—	—
	In containers of more than 20 kg.	lb. 3; 10¢	1.5-5¢	—	—	—
	In containers of less than 20 kg.	lb. 3.75¢	1¢	—	*2%	0%
	Of beef	—	—	—	9; 24%	7; 20'
	Of other meats	—	—	—	—	—
1701	Sugar	ave 10.1-12.3%	(10.1-12.3%)	BO	80%	80%
1801	Cocoa beans	0	0	—	9%	5.4'
1803	Cocoa paste	lb. 0.625¢	0	—	25%	15%
1804	Cocoa butter	6.25%	3%	—	20%	12%
1805	Cocoa powder, unsweetened	lb. 0.75¢	0.37¢	—	27%	16%
1806	Chocolate and other food preparations containing cocoa	—	—	—	—	—
	Chocolate, unsweetened	lb. 0.625¢	0	—	—	—
	Chocolate, sweetened	lb. 0.8¢; 10%	0.4¢; 5%	—	30; 80%	10%
	Cocoa powder, sweetened	—	—	—	27%	12%
	Other	5; 10%	2.5; 5%	—	—	—
2006	Prepared or preserved fruit	—	—	—	—	—
	Apples	lb. 1.07¢	0.5¢	—	—	—
	Pears	20%	18%	—	—	—
	Pineapples	lb. 0.75¢	(0.75¢)	—	—	—
	Prepared bananas	15%	7.5%	—	—	—
	Grapefruit	—	—	—	—	—
	Peaches	ave 7; 20%	3.5-20%	—	—	—
	Preserves, not containing spirit	—	—	—	23; 25% (0) ^d	0-24'
	Other	—	—	—	17-25%	15-25
2102	Coffee extracts or essences	—	—	—	24%	18%
	Soluble coffee	0	0	—	—	—
	Other	lb. 3¢	0	—	—	—
2301	Flours and meals, of meat, offals, fish, etc., unfit for human consumption	0	0	—	3; 4	0; 1
2304	Oil-cake and other residues	—	—	—	0	0
	Of linseed	lb. 0.25¢	0.12¢	—	—	—
	Of soya	—	—	—	—	—
	Other	lb. 0.3¢	(0.3¢)	—	—	—
2401	Unmanufactured tobacco	—	—	ES	15; 28%	15; 23

GDOM AND JAPAN: TARIFF AND NON-TARIFF RESTRICTIONS ON REST TO LATIN AMERICA

EEC			United Kingdom			Japan		
Non-tariff restrictions, etc.			Tariff duties		Non-tariff restrictions, etc.	Tariff duties		Non-tariff restrictions, etc.
EC	Fed. Rep. of Germany	France	Pre-KR	Post-KR		Pre-KR	Post-KR	
PS; ES	ST	—	{ lb. 2/3 d 3/4 d; 20% }	{ (2/3 d) 3/4 d; 20% }	PS	25%	(25%)	GQ
—	ex PS	—	0-30%	(0-30%)	—	—	—	GQ
—	—	—	—	—	—	5; 15%	5; 7.5%	—
—	—	—	—	—	—	5; 15%	5; 7.5%	—
—	—	—	—	—	—	—	—	—
—	—	QR	cwt 7s 6d	(7s 6d)	GQ (-DA)	10; 15%	(10; 15%)	—
—	—	—	0	0	—	70%	(70%)	—
—	—	—	0	0	—	20%	10%	—
—	—	—	10%	(10%)	—	20%	10%	—
C; PS	—	ES; PS	10%	5%	—	20%	5%	—
—	—	—	cwt (3s6d) a	(3s6d) a	—	20; 40%	(20; 40%)	GQ
—	—	ES; PS	cwt 5s	(5s)	GQ (-DA)	20%	(20%)	GQ
—	II	II; QR	cwt 9s4d	4s8.4d	—	30% (10%) d	0	II
—	II	II; QR	cwt 12s6d	6s3d	—	35%	(35%)	GQ; II
—	II	II; QR	0	0	—	5-35%	0-35%	ex GQ
—	—	—	—	—	—	—	—	—
—	—	—	cwt 4s6d	0	—	5-25%	0	—
—	—	—	10%	(10%)	—	15; 25%	5; 10%	—
PS; ES	—	ST	0; 10%	(0; 10%)	—	20%	(20%)	ST; PS
PS; ES	—	ST	0; 10%	0; 5; 10%	—	0; 10% (0) d	(0; 10%)	—
PS; ES	ST	ST	—	—	—	15% (0) d	(15%)	ST; PS
—	—	—	0	0	—	—	—	—
—	—	—	cwt 6s	3s	—	—	—	—
—	—	—	cwt 6s	3s	—	—	—	—
—	—	ex QR; ST	10%	(10%)	—	20% (10%) d	0; 20%	GQ
—	—	ST	7.5% (0) d	(7.5%)	—	0	0	—
—	—	ex QR; ST	—	—	—	—	—	—
—	—	—	10%	(10%)	—	0	0	—
—	—	—	15%	(15%)	—	10%	(10%)	—
—	—	—	—	—	—	10%	8%	—
—	—	—	—	—	—	Kg. 28 Y	(28 Y)	GQ
—	—	—	12.5%	(12.5%)	—	10%	(10%)	—
—	—	—	—	—	—	—	—	—
ex ES	ST; ex GQ or BQ	—	—	—	ex IP—(-SA)	20; 25%	15; 25%	ex GQ
C; PS	—	—	*20%	15%	—	25%	(25%)	—
C; PS	—	—	—	—	—	—	—	—
C; PS	—	—	{ 5-15% }	{ (5-15%) }	—	—	—	—
L; PS	—	—	1b. 3¢	(1b. 3¢)	—	—	—	—
—	—	—	—	—	—	30%	20%	—
—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—
—	—	—	20%	10%	—	—	—	—
—	—	—	10%	(10%)	—	—	—	—
July } 8 VL }	GQ; ST	QR; ST	{ ave 1.5-10.7% }	{ (1.5-10.7%) }	GQ; PS	{ ave (52.76%) }	{ (52.76%) }	ex GQ; PS
—	—	II	ave 0.9-3%	0	—	5%	0	—
—	—	II	cwt 3s	0	—	20%	10%	—
—	—	II	cwt 2s4d	0	—	9%	5%	—
—	—	II	cwt 3s	0	—	30%	(30%)	II
—	ex GQ or BQ	—	—	—	—	—	—	ex GQ
—	—	—	—	—	—	35%	(35%)	—
—	—	—	cwt 5s	(5 s)	—	—	—	—
—	—	—	cwt 4; 6s	(4; 6s)	ex GQ (-DA)	25; 35%	(25; 35%)	—
—	ex GQ or BQ	ex GQ	ave 2.7%	(2.7%)	—	—	—	—
—	—	—	12 3/8%	(12 3/8%)	—	25; 35%	20; 25%	—
—	—	—	cwt 5s7d	5s 6d	—	45%	(45%)	GQ
—	—	—	—	—	—	—	—	—
—	—	—	5/8%	0	—	—	—	—
—	—	—	12 3/8%	6; 12 3/8%	—	25%	20%	—
—	—	—	—	—	—	—	—	—
—	—	—	5 1/2-15 3/8%	0-15 3/8%	—	20-39%	20-30	ex GQ
—	—	QR	cwt £22 16s; 10%	£2; 10%	—	25%	(25%)	—
—	—	—	—	—	—	35%	30%	—
—	—	—	—	—	—	—	—	—
—	ST	—	10%	(10%)	—	0	0	GQ
—	PS	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—
—	—	—	15%	10%	—	5%	(5%)	ex GQ
—	—	—	10%	(10%)	—	0	0	ex GQ
—	—	—	10%	(10%)	—	—	—	—
—	—	QR; ST	lb. { £4 7s4 1/2 d £4 8s4 1/2 d }	{ £4 7s4 1/2 d £4 8s4 1/2 d }	—	355%	(355%)	ST

BTN	Products	United States				
		Tariff duties		Non-tariff restrictions, etc.	Tariff duties	
		Pre-KR	Post-KR		Pre-KR	Post-KR
	Filler tobacco, Turkish type*	lb.* 12.75¢	11.5¢	—	—	—
	Other	lb. 0.90.9¢	(0.90.9¢)	—	—	—
2601 A	Iron ore and concentrates	0	0	—	0	0
2601 B	Roasted iron pyrites	0	0	—	0	0
2601 C	Copper ore	lb. 0; 1.7¢ ^k	0; 0.8¢	—	0	0
2601 E	Bauxite and concentrates	ton 50¢ ^k	0	—	0	0
2601 G	Zinc ore and concentrates	lb. 0.67¢ ^s	0	—	0	0
2601 H	Tin ore	0	0	—	0	0
2601 M	Tungsten ore	lb. 50¢	25¢	—	0	0
2709	Petroleum oils, crude	—	—	—	0	0
	Less than 25° (A.P.I.)	gallon 0.125¢	(0.125¢)	OR	—	—
	Over 25° (A.P.I.)	gallon 0.25¢	(0.25¢)	OR	—	—
2710	Petroleum and shale oils, other than crude	—	—	—	{ 10-14% (0.7%) ^d }	5-7%
	Hydrocarbon oils	—	—	—	—	—
	Motor oil	ave 14.6%	(14.6%)	OR	—	—
	Lubricants	—	—	—	—	—
	Other	ave 3.8-14.4%	(3.8-14.4%)	ex OR	—	—
4001	Natural rubber	0; 10%	0; 5%	—	0	0
4101	Raw hides and skins	—	—	—	0	0
	Bovine hides	2; 4	0; 2	—	—	—
	Other	0	0	—	—	—
4102	Bovine cattle leather	10; 12.5%	5; 9%	—	9; 10%	8%
4103	Sheep and lamb skin leather	—	—	—	0	0
	Vegetable-tanned	8%	6%	—	—	—
	Dyed or tinted	—	—	—	—	—
	Other	10; 12.5%	5; 6%	—	{ 6; 10% (45; 8%) ^d }	3; 5%
4104	Goat and kid skin leather	8; 10%	4-6%	—	{ 0; 7; 10% (5.6; 6%) ^d }	0; 3.5; 5%
4105	Other kinds of leather	12.5%	6%	—	{ 8; 9% (6.4; 7.2%) ^d }	0-4.5%
4415	Plywood and veneered panels	—	—	—	14; 15%	13%
	Plywood	20%	(20%)	—	—	—
	Other	20-40%	7.5-20%	—	—	—
5301	Wool, not carded or combed	—	—	—	0	0
	Coarse	lb. 13-27¢ 0	0; 7-14¢	—	—	—
	Fine	lb. 25.5-33¢	(25.5-33¢)	—	—	—
5305	Wool or hair, carded or combed	—	—	—	0	0
	Wool tops	10%	5%	—	—	—
	Rovings	10%	5%	—	—	—
	Other	{ lb. 27.75¢ + 6.25% }	{ (27.75¢ + 6.25%) }	—	—	—
5501	Cotton, not carded or combed	—	—	ES; GO	0	0
	Bleached	—	—	—	—	—
	Unbleached	—	—	—	—	—
	Having a staple length under 1 1/8"	0	0	—	—	—
	Having a staple length between 1 1/8" and 1 11/16"	lb. 3.5¢	(3.5¢)	—	—	—
	Having a staple length 1 11/16" or more	lb. 1.75¢	(1.75¢)	—	—	—
5599	Other woven fabrics of cotton	2.5-25% ^e	1.9-19% ^e	BQ ¹	14-19%	13-15%
5704	Other vegetable textile fibres	—	—	—	0	0
	Raw	0	0	—	—	—
	Sisal, processed	8%	(8%)	—	—	—
	Other	8%	4%	—	—	—
	Coir	—	—	—	—	—
	Other, not carded or combed	—	—	—	—	—
	Other, carded or combed	—	—	—	—	—
6203	Sacks and bags, woven	—	—	—	—	—
	Not bleached or coloured	ave 6.4%	2.9%	—	—	—
	Bleached or coloured	10.9%	5.45%	—	—	—
	Of jute, unused	—	—	—	*23%	15-20%
	Of jute, used	—	—	—	11%	8%
	Of man-made fibres	—	—	—	—	—

Annex

BTN	Products	United States				
		Tariff duties		Non-tariff restrictions, etc.	Tariff duties	
		Pre-KR	Post-KR		Pre-KR	Post-KR
	Other	—	—	—	{ 10-19% } { (8; 15%) ^d }	8-10%
7301	Pig iron	—	—	—	4-15% ^t	0; 4%
	Spiegeleisen:	—	—	—	—	—
	containing chromium, molybdenum, tungsten, etc.	ave 15%	(15%)	—	—	—
	not containing chromium, etc. ...	ave 1%	(1%)	—	—	—
	Other, containing chromium, molyb- denum, tungsten, etc.	ton 56.25¢	28¢	—	—	—
	Other, not containing chromium, etc.	ave 0.4%	0	—	—	—
7401	Unwrought copper	ave 4.4-25.4% ^k	2.2-12.7%	—	0	0
7801	Unwrought lead	ave 9.8%	(9.8%)	—	0; 4.5%	(0; 4.5%)

Sources: GATT, "Preliminary survey of the results of the Kennedy Round Negotiations for products of interest to developing countries" (COM.TD/46 and Add.1, 2, 5 and 6, July 1967); UNCTAD, "The Kennedy Round: Preliminary evaluation of results with special reference to developing countries" (TD/6/Supp.3, September 1967); Respective national tariff schedules; GATT, "Notifications of import restrictions applied inconsistently with the provisions of GATT and not covered by waivers" (L/2740 and Add.1-14, 1967), "Information on import restrictions applied by developed countries on the products of export interest to developing countries" (COM/TD/W/60, July 1967). Data for United States taken from GATT document L/2568, Add.6 (March 1966); and for France, from GATT documents COM.TD/W/19 (March 1966), L/2817 (July 1967)

and "Information on state trading, subsidies and taxes in industrialized countries" (COM.TD/W/34, November 1966).

Symbols: () Brackets signify that the tariffs were not subject to negotiations; KR: Kennedy Round; VL: Variable levies; QC: Quality control; SD: Special duty; PS: Production subsidy; ES: Export subsidy; ST: State trading; IT: Internal taxes; Q: Quota; GQ: Global quota; BQ: Bilateral quota; P: Permit; PP: Permit required for imports, but which is in general fairly easily obtainable; IP: Import prohibited; (-SA): applicable only outside the sterling area; (DA): applicable to the dollar area; QR: Quantitative restriction; *: Major item; ¢: dollar cent; d.: penny; s.: shilling; Y: yen; cwt: hundredweight (112 lbs.); ave: *ad valorem* equivalent.

General note: This list refers only to certain products of special

I (continued)

EEC			United Kingdom			Japan		
Non-tariff restrictions, etc.			Tariff duties		Non-tariff restrictions, etc.	Tariff duties		Non-tariff restrictions, etc.
EEC	Fed. Rep. of Germany	France	Pre-KR	Post-KR		Pre-KR	Post-KR	
—	—	—	17.5-33 1/3%	(17.5-33 1/3%)	—	15-20%	7.5-10%	—
—	—	QR	0; 10%	0; 8%	—	10%	5%	—
—	—	—	10%	8%	—	—	—	—
—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—
—	—	ex P	0; 10%	0; 5%	—	0; 10%	0-10%	—
—	—	—	ave 0-10%	0; 5%	—	10-20%	5-12%	—

interest for Latin American exports, selected on the basis of the following documents: UNCTAD, "Report on items of export interest to the developing countries" (TD/B/C.2/20, March 1967); GATT, "Products notified as being of export interest to less-developed countries" (COM.TD/23, June 1966); "Memorandum of the Latin American Missions to the EEC" (February 1966).

^a Applied to imports from April to November.

^b Including the weight of the container.

^c Reserving the right to revert to the previous rate in the event of market disruption.

^d Duties currently applied.

^e Plus an additional duty.

^f Average of duties applied by the countries of the European Coal and Steel Community.

^g Applied on the net zinc content.

^h Applied to all countries except the European countries, countries associated with EEC, Cyprus, Kenya, Sierra Leone, Uganda, Jamaica, and Trinidad and Tobago.

ⁱ Applied in accordance with the long-term agreement on cotton textiles.

^j Consolidation of a reduction applied on a temporary basis under the Yaoundé Convention.

^k Application of the duty had been provisionally suspended.

^l Duties will be reduced when the American Selling Price customs evaluation method is abolished.

Annex II

ARGENTINA, BRAZIL, CHILE, PERU AND URUGUAY: LINER FREIGHT RATES IN EXPORT TRADE AT THE END OF 1966

1. Freight rates in Argentina's export trade with the United Kingdom and Northern Europe (North Sea and Baltic ports)^a

Product	Exports 1965 ^b (tons)	F.o.b. value	Freight, ^c including surcharges	Freight as a percent- age of f.o.b. value
		(dollars per ton)		
Canary seed	14,921	75.48	18.72	24.8
Hulled rice	19,447	87.76	20.80	23.7
Fish meal	2,165	94.42	27.56	29.2
Fish oil	1,161	129.09	44.20	34.2
Dried vegetables	10,927	155.71	23.92	15.4
Quebracho extract	27,807	165.51	19.76	11.9
Fats and greases	4,182	174.88	42.12	24.1
Preserves, fruit and vegetables	4,398	207.45	43.16	20.8
Edible oils	74,062	266.92	44.20	16.6
Salted hides	37,834	280.93	43.68	15.6
Wine, in crates	27	319.27	80.08	25.1
Dried fruit	1,045	320.21	31.72	9.9
Tea	6,775	536.74	46.28	8.6
Greasy wool	42,900	748.10	44.20	5.9
Frozen or chilled beef	190,094	619.92	93.60 ^d	15.1
Apples	186,531	117.24	82.73 ^d	70.6
Preserved meat	12,240	872.60	31.72	3.6
Calculating and accounting machines ..	219	6,387.78	208.00	3.3

2. Freight rates in Brazil's export trade with Atlantic ports in the United States of America

Product	Exports 1965 ^b (tons)	F.o.b. value	Freight, ^c including surcharges	Freight as a percent- age of f.o.b. value
		(dollars per ton).		
Maize	6,311	54.25	70.55	130.0
Roundwood	4,943	94.21	29.50	31.3
Brazilian pinewood, sawn	14,367	80.15	21.19	26.4
Tanning extracts	1,853	127.43	26.25	20.6
Fruit juices	2,249	351.22	78.90	22.5
Cocoa	68,243	280.86	39.50	14.1
Raw cotton	97	482.98	38.50	8.0
Dried bananas	87	511.30	73.00	14.3
Coffee beans	376,569	874.92	45.83	5.2
Greasy wool	732	1,104.26	68.64	6.2
Jute and sisal fibres, in bales	23,712	157.59	40.00	25.4
Preserved meat	9,909	737.60	31.50	4.3
Cotton, woollen and linen fabrics	3,832	1,066.34	101.00	9.5

Annex II (continued)

**3. Freight rates in Brazil's export trade with the United Kingdom and Northern Europe
(North Sea and Baltic ports)^a**

Product	Exports 1965 ^b (tons)	F.o.b. value	Freight, ^f	Freight as a percent- age of f.o.b. value
			including surcharges	
			(dollars per ton)	
Maize	58,049	50.21	28.60	57.0
Roundwood	18,884	194.15	42.50	21.9
Brazilian pinewood, sawn	197,009	90.04	28.53	31.7
Tanning extracts	4,793	133.13	23.50	17.7
Fruit juices	3,733	311.59	69.00	22.1
Cocoa	5,820	334.29	41.50	12.4
Raw cotton	117,226	491.37	52.00	10.6
Dried bananas	28	464.61	35.60	7.7
Coffee beans	286,772	893.89	43.30	4.8
Greasy wool	9,920	926.63	55.40	6.0
Jute and sisal fibres, in bales	63,497	171.04	33.00	19.3
Hulled rice	25,024	114.30	27.60	24.1
Preserved meat	4,156	767.50	29.40	3.8
Cotton, woollen and linen fabrics	245	944.18	82.00	8.7

4. Freight rates in Chile's export trade with Pacific ports in the United States of America

Product	Exports 1965 ^b (tons)	F.o.b. value	Freight, ^g	Freight as a percent- age of f.o.b. value
			including surcharges	
			(dollars per ton)	
Nitrate, in bags	6,780	32.09	24.25	75.5
Wood, in the rough	150	89.70	33.22	37.0
Newsprint	82	107.92	31.36	29.1
Fish meal	4,782	125.16	34.92	27.9
Garlic	281	200.50	55.93	27.9
Dried vegetables	600	209.62	39.65	18.9
Wine, in crates	409	246.10	46.35	18.8
Olives	168	416.08	45.76	11.0
Electrolytic copper	12,178	799.69	44.60	5.6
Greasy wool	1,370	995.98	71.38	7.2
Copper wire	6,261	919.37	45.42	4.9

**5. Freight rates in Chile's export trade with the United Kingdom and Northern Europe
(North Sea and Baltic ports)^a**

Product	Exports 1965 ^b (tons)	F.o.b. value	Freight, ^h	Freight as a percent- age of f.o.b. value
			including surcharges	
			(dollars per ton)	
Greasy wool	3,687	952.25	57.68	6.1
Fresh apples	14,161	117.75	82.40	70.0
Sodium nitrate, in bags	15,137	32.13	10.50	32.7
Fish oil	7,942	172.61	23.07	13.4
Prunes	1,619	200.24	31.00	15.5
Dried vegetables	13,809	186.62	23.07	12.4
Sawn pinewood	25,481	47.89	30.90	64.5
Wood, in the rough	2,253	71.78	30.28	42.2
Electrolytic and refined copper	158,591	787.46	20.08	2.5
Wine, in crates	40	329.45	80.34	24.4
Copper wire	17,289	753.90	38.21	5.1

Annex II (continued)

6. Freight rates in Peru's export trade with Atlantic ports in the United States of America

<i>Product</i>	<i>Exports 1965^b (tons)</i>	<i>F.o.b. value</i>	<i>Freight,¹</i>	<i>Freight</i>
			<i>including surcharges</i>	<i>as a percent- age of f.o.b. value</i>
			<i>(dollars per ton)</i>	
Cotton	7,526	781.24	46.00	5.9
Fish, fresh, chilled or frozen	2,983	150.99	95.00	62.9
Coffee beans	27,541	842.67	39.00	4.6
Refined lead	24,472	302.47	16.73	5.5
Refined sugar	276,519	116.17	27.00	23.2
Electrolytic copper	34,007	695.53	18.21	2.6
Preserved fish and shellfish	4,142	392.55	45.00	11.5
Fish meal	213,003	103.13	23.00	22.3
Woollen carpets	12	2,724.10	220.00	8.1
Dried vegetables	1,374	206.63	30.00	14.5
Veneer panels, sawn	3,866	143.62	36.00	25.1

7. Freight rates in Uruguay's exports trade with Atlantic ports in the United States of America

<i>Product</i>	<i>Exports 1965^b (tons)</i>	<i>F.o.b. value</i>	<i>Freight,¹</i>	<i>Freight</i>
			<i>including surcharges</i>	<i>as a percent- age of f.o.b. value</i>
			<i>(dollars per ton)</i>	
Canary seed	50	74.99	40.19	53.6
Rice	502	127.00	37.35	29.4
Greasy wool	16,835	1,225.42	67.35	5.5
Frozen beef	50	599.98	155.07	25.8
Casein	696	679.56	43.57	6.4
Preserved meat	7,162	488.97	36.92	7.6
Meat extract	71	12,147.65	47.54	0.4
Fruit juice	110	739.85	72.44	9.8
Wool tops, combed	735	2,074.00	111.49	5.4
Fabrics	273	4,294.94	134.69	3.1

Annex II (continued)

8. *Freight rates in Uruguay's export trade with the United Kingdom and Northern Europe (North Sea and Baltic ports)^a*

<i>Product</i>	<i>Exports 1965^b (tons)</i>	<i>F.o.b. value (dollars per ton)</i>	<i>Freight,^k including surcharges</i>	<i>Freight as a percent- age of f.o.b. value</i>
Rice	9,658	107.30	20.00	18.6
Barley	1,194	50.38	15.00	29.8
Greasy wool	24,472	1,185.48	48.50	4.1
Frozen beef	22,557	542.97	95.00	17.5
Preserved meat	11,242	611.45	38.00	6.2
Meat extract	264	13,076.98	66.00	0.5
Wool tops, combed	5,459	2,085.10	52.00	2.5
Salted cowhide	405	106.25	33.00	31.1
Salted beef tripe	460	656.64	47.50	7.2
Meat meal	804	61.02	35.50	58.2

Sources: Rates published by the shipping conferences and Foreign Trade Yearbooks of the countries included.

^a Includes Belgium, Czechoslovakia, Denmark, Finland, France, Germany, Iceland, Ireland, the Netherlands, Norway, Poland, Sweden, Switzerland and the United Kingdom.

^b Tonnage includes total exports to the countries in question.

^c Freight from Buenos Aires to Antwerp.

^d Freight in refrigerated chambers.

^e Freight from Santos to New York.

^f Freight from Santos to Antwerp.

^g Freight from Valparaiso to San Francisco.

^h Freight from Valparaiso to Antwerp.

ⁱ Freight from Callao to New York.

^j Freight from Montevideo to New York.

^k Freight from Montevideo to Antwerp.

CHARTER OF TEQUENDAMA

PREAMBLE

The first United Nations Conference on Trade and Development (UNCTAD) identified and defined the problems presented by international economic relations, and especially by the conditions in which the foreign trade of the developing countries is carried on and in which their economic and social development is proceeding.

The Final Act of the Conference brought together a series of principles and recommendations on measures and programmes of action which, if carried out, would have made it possible to solve many of the problems confronted at that time and to lay the foundations for a better world trade order and more effective international economic co-operation.

The developing countries, taking into account the work done by the organs of the Conference, wish to reach at the second session of UNCTAD, among other basic objectives, practical agreements with the developed countries on specific questions.

The countries members of the *Ad Hoc* Committee on Latin American Co-ordination (CECLA) reaffirm this position and stress the urgent need that, at the second UNCTAD, institu-

tional machinery should be established and effective measures adopted so that, with the co-operation of the developed countries, the goals proclaimed by the United Nations for the Development Decade may be fully attained.

The developing countries of other regions, in order to analyse their special problems and consider their common attitude on general questions, have been holding meetings that will undoubtedly do much to clarify the general and specific topics to be discussed at Algiers and at the second UNCTAD, and to devise solutions for problems common to the developing countries.

In these circumstances, the countries members of CECLA deem it appropriate to make known to the participants in the Algiers meeting the position of Latin America and its specific views on some of the substantive questions on the agenda for the second UNCTAD, in order to continue a constructive exchange conducive to harmonious expression of the aspirations and interests of the developing countries.

The Latin American countries members of CECLA unanimously agree on the following:

I. COMMODITY PROBLEMS AND POLICIES

1. For the developing countries it is essential that, in the discussions and negotiations held at the second UNCTAD, the highest priority should be given to improving the conditions of access for the commodities which they export to the developed market economy countries and to the centrally planned economy countries. In this connexion the countries members of CECLA consider it of fundamental importance:

(a) That the principle of the *status quo* accepted at the first Conference should be effectively observed, and that an undertaking should be obtained from the developed countries to eliminate, by 31 December 1968 at the latest, all tariff and non-tariff restrictions adopted since

the signing of the Final Act of the first Conference. To that end the secretariat of UNCTAD should prepare in co-operation with the competent international agencies, before 30 June 1968, a list of such retrogressions for submission to the participating Governments;

(b) That a programme of tariff and non-tariff liberalization should be adopted for primary commodities of export interest to the developing countries, and that all restrictions and charges applied by the developed countries to such commodities originating exclusively from the developing countries should be removed immediately. Immediate removal of restrictions and charges should also be granted by the

developed countries for other primary commodities which are not in direct competition with their own domestic products;

(c) That a programme of measures should be adopted to discourage uneconomic production, in the developed countries, of products which compete with products originating from the developing countries, and to abolish subsidies on the production and export of such competing products;

(d) That a programme should be drawn up for the total elimination by the developed countries of domestic taxes and fiscal surcharges applied to products of interest to the developing countries;

(e) That the developing countries should be guaranteed a minimum share in the markets of the developed countries through the setting of ceilings on self-sufficiency, through undertakings given under agreements or international commodity arrangements to make certain purchases, and through other means. In any case, a substantial share of any increase in domestic demand for primary commodities in the developed countries should be reserved for the output of the developing countries;

(f) That encouragement should be given to the holding of complementary negotiations to improve on the results obtained by the developing countries in the Kennedy Round and to ensure that such results as have been or may be obtained are extended to all developing countries;

(g) That consultative machinery should be established to ensure that the production surpluses or reserves of the developed countries are disposed of in an orderly manner so as not to interfere with the developing countries' exports and not to depress international prices;

(h) That, under a multilateral institutional arrangement, objective criteria should be adopted for identifying situations in which restrictions are applied by virtue of safeguard clauses, and the unilateral application of restrictions should be avoided;

(i) That, independently of the right to require the immediate cancellation of measures which violate the rules adopted as proposed in the foregoing paragraphs, appropriate machinery should be established to make good any loss or damage caused to the developing countries by such measures.

2. That an essential aspect of international policy on commodity trade is the protection of price levels which, in conjunction with suitable

conditions of access, will secure higher foreign earnings for the developing countries;

That agreements and other international arrangements concerning commodities represent, in many cases, the appropriate means of providing the developing countries with safeguards in the matter of access and prices, and of reconciling the interests of exporting and consuming countries;

That such agreements and other arrangements should be negotiated commodity by commodity, with due regard for the characteristics peculiar to each commodity. This should not deter UNCTAD from continuing its studies on the general principles of commodity agreements;

3. That, on the basis of the agreements reached at the first UNCTAD concerning the establishment of general conditions of free access for primary commodities, the developing countries should press for the implementation of the agreements reached on that occasion concerning the elimination of discriminatory preferences against developing countries;

4. That the creation, where feasible, of buffer stocks of primary commodities should help to reduce the short-term instability of markets without affecting long-term trends and without releasing the developed countries from other obligations which they have assumed or may assume concerning, *inter alia*, access, prices or regulation of production. To assist in financing such stocks, particularly at the initial stage, the international financial agencies should be urged to participate and the developed countries to adopt a more constructive attitude. It is not advisable to promote buffer stocks of commodities of which there is structural world over-production;

5. That diversification of the production and exports of primary commodities by the developing countries will be more effective if adequate financial resources are obtained for the implementation of programmes adopted under international commodity agreements or national development plans. To that end, immediate further action is recommended with a view to the establishment of specific funds for particular products. Diversification programmes for products originating in developed and developing countries should secure for the developing countries a larger share of world trade in the product concerned, and hence production control should be applied in the first instance, and with greater intensity, in the developed countries.

II. EXPANSION AND DIVERSIFICATION OF EXPORT OF MANUFACTURES AND SEMI-MANUFACTURES OF DEVELOPING COUNTRIES

With a view to promoting exports of manufactures and semi-manufactures as a dynamic factor in financing development and stimulating technological progress in the developing countries, the countries members of CECLA consider that first priority should be given to the following points:

1. ESTABLISHMENT OF A SYSTEM OF PREFERENCES FOR PRODUCTS EXPORTED BY DEVELOPING COUNTRIES

At the second UNCTAD, basic principles should be negotiated for a general system of tariff and non-tariff preferences, together with a commitment to work out in specified forums, and within specified time-limits, the specific details of the system. The basic principles of the preferences should embody at least the following features:

(a) They should be general, non-discriminatory and without reciprocity, and should be granted by the developed countries to all developing countries;

(b) They should take the form of free access for manufactures and semi-manufactures originating from developing countries to the markets of developed countries, with the complete and immediate abolition of tariffs and all non-tariff restrictions;

(c) They should cover all manufactures and semi-manufactures produced in developing countries, without restrictions on volume or value;

(d) The developed countries could, however, establish tariff quotas for preferential imports of articles which were recognized as "critical" or "sensitive". The relevant lists negotiated for each developing country would be subject to periodic revision with a view to their gradual elimination;

(e) The system should include provision for the machinery needed to make it work efficiently and, in case it should prove necessary to apply safeguard clauses, provisions should be laid down specifying the circumstances and conditions under which countries granting preferences would be able to apply such clauses temporarily, and the compensation they would grant in such event to developing countries affected by the loss or reduction of the preference in question;

(f) In the event of the application of safeguard clauses, the only imports restricted would

be those of the countries responsible for the situation giving rise to the application of those clauses;

(g) The preferences should be of sufficient duration to ensure that, in time, all the developing countries take full advantage of them;

(h) Arrangements should be made to grant technical and financial assistance wherever needed in order to ensure that all the developing countries take full advantage of the preferences;

(i) Without prejudice to such of the arrangements described above as may favour the less developed among the developing countries; to arrangements made in their favour in order to promote trade between developing countries; or to such arrangements as have been or may be agreed upon in regional or sub-regional systems of developing countries; once the general system of preferences is in operation, efforts will be continued to arrive at other arrangements of which the developing countries will be able to take the fullest possible advantage;

(j) The discriminatory preferences granted by developed countries to developing countries for manufactures and semi-manufactures will be absorbed in the general preferential system;

(k) Suitable machinery should be established to supervise the operation of the system of preferences and, in particular, to determine the lists of "critical" or "sensitive" products;

(l) The developed countries with centrally planned economies should grant advantages whose effects are at least equivalent to the preferences requested from the developed market-economy countries.

2. ACCESS FOR MANUFACTURES PRODUCED BY DEVELOPING COUNTRIES TO THE MARKET OF DEVELOPED COUNTRIES

At the second UNCTAD, the developing countries should press for compliance by the developed countries with the agreements reached at the first UNCTAD on liberalization for manufactures and semi-manufactures of export interest to the developing countries, particularly as regards the principle of the *status quo*.

In addition the developing countries should strive for the establishment of objective criteria for the application of restrictions to trade in products from developing countries under safeguard clauses relating to "market disruption"

and other "special circumstances" applied by developed countries, so that such situations may be defined, provisions may be laid down specifying what measures restrictive of trade can legitimately be applied when such a situation is found to exist, and compensation may be fixed which corresponds to the loss or damage suffered by the developing countries. Multi-lateral consultative and supervisory machinery should be set up for that purpose.

Such compensation might be of a commercial nature or might take the form of additional financial resources for the sectors of production affected by the application of restrictions.

The developed countries should not promote the development in their territories of industries of particular interest to the developing countries. In those cases where developed countries have invoked safeguard clauses on grounds of market disruption, they should make the appropriate domestic structural adjustments.

The developed countries should forthwith apply to the manufactures and semi-manufactures exported by all developing countries such exclusive commercial benefits as they grant outside systems of integration, to other developed countries and all the tariff reductions agreed upon in GATT's Kennedy Round negotiations, and should extend them to all developing countries whether or not members of GATT.

III. MONETARY AND FINANCIAL PROBLEMS RELATED TO ECONOMIC DEVELOPMENT

CECLA, having considered various aspects of development financing, again expresses its concern at the grave problems created by the insufficiency of the external financial resources available for development, the unsatisfactory terms of aid, and the growing external indebtedness of developing countries in general and the countries of Latin America in particular. In this connexion, it trusts that special attention will be given to the Agreed Statement which was adopted at the Second Session of the UNCTAD Committee on Invisibles and Financing Related to Trade by both developed and developing countries and which contained an analysis of the main problems of development financing (TD/B/119).

Furthermore, in connexion with the problems of external debt servicing, it stresses the urgent need for the capital exporting countries, in co-operation with the developing countries and the specialized international organizations, to consider the adoption of suitable methods for

3. EXPORT PROMOTION

Developed countries and international agencies should channel more, and more effective, technical and financial assistance in order to improve the productivity of the developing countries' industries and their competitiveness in international markets.

International co-operation should also be secured with a view to the dissemination of trade information, particularly with regard to the opportunities offered by the developed countries' markets. To that end, the developing countries should support the establishment of the joint UNCTAD-GATT trade promotion centre and obtain the financial and technical support of the developed countries for its operation.

4. TECHNOLOGY

The developed countries should encourage the transfer of knowledge and technology to developing countries by permitting the use of industrial patents on the best possible terms which will enable products manufactured in developing countries to compete effectively in world markets.

They should also promote the elimination of restrictive practices, relating to market distribution and price-fixing, which are imposed by enterprises in developed countries in granting licences for the use of patents and trade-marks in developing countries.

long-term consolidation of the short- and medium-term external debts of developing countries.

For the purpose of the Algiers meeting and UNCTAD II, CECLA submits the following recommendations:

1. INCREASE IN AID FLOWS

(a) It is recommended that the "Group of 77" should stress at UNCTAD II the urgent need to implement the recommendation in annex A.IV.2 of the Final Act of the first Conference that an effort be made to supply to the developing countries financial resources of a minimum net amount approaching as nearly as possible to 1 per cent of their national income, and that it should also stress the need to increase substantially the proportion of public funds supplied under this target. To this end, the UNCTAD secretariat should be requested to provide figures of international financial flows taking place

in accordance with the provisions of the recommendation in the above-mentioned annex.

(b) It is recommended that the Secretary-General of UNCTAD be requested to seek information from the developed countries on the causes of their failure to carry out the undertaking which they made on this point at the first Conference.

(c) It is recommended that the statutes of the International Bank for Reconstruction and Development should be revised so as to transform that organization into a world development bank which would provide credits exclusively to developing countries. It is, however, recognized that considerable time would be required to complete all the formalities involved in such a revision. For this reason, it is essential that, during this transition period, suitable changes be made in IBRD's credit policy to ensure that its resources are as soon as possible used exclusively for the provision of aid to developing countries.

(d) It is recommended that developed countries which received loans from IBRD and which at present have outstanding debit balances should pay off those balances before maturity so that the funds repaid will become available for the granting of new credits to developing countries, the provision of additional resources for IDA and for other financial operations on "soft" terms.

2. SO-CALLED "SOFT" CREDITS

It is recommended that developed countries members of IBRD should, as a matter of urgency, provide additional and adequate resources for the International Development Association (IDA).

3. INTEREST EQUALIZATION FUND

It is recommended that support should be given to the early establishment of the multilateral interest equalization fund referred to in recommendation A.IV.11 of the Final Act of the first Conference which would make it possible to mobilize resources on the international capital markets at current rates of interest and to use them for granting of credits to developing countries at low interest and for terms longer than is normal. The difference between the cost of these resources and the rates of interest would be covered out of the above-mentioned fund.

4. SUPPLIERS' CREDITS

It is recommended that an inter-governmental group, with equitable representation of the countries in which suppliers' credits originate and of the borrowing countries, should be set up within UNCTAD with the object of eliminating abuses and restrictive practices in this field and of providing the developing countries with an opportunity to work out multilaterally their proposals concerning the practices to be followed by suppliers and recipients in the future. The international financial organizations would be invited to co-operate in the work of this inter-governmental group, which would take into consideration the information prepared on the subject by the international organizations and by the UNCTAD secretariat. The UNCTAD secretariat is urged to continue studying all aspects of suppliers' credits and other commercial credits, in order to assist the efficient functioning of the proposed group, which would make use for its purposes of the various studies available.

5. SUPPLEMENTARY FINANCING SCHEME

(a) It is recommended that the Latin American countries members of the Inter-governmental Group on Supplementary Financing should, at the Group's third session, support the preparation of a preliminary draft statute for an agency to administer supplementary financing, for consideration at UNCTAD II.

(b) It is recommended that, in order to avoid interference by the said agency in the economic policy decisions of developing countries, the conditions for participation by those countries in the supplementary financing scheme should be limited to the following:

(i) The developing country and the agency would jointly prepare export projections for a specific period to be agreed upon; the country would indicate the main lines of the economic policy it proposed to follow during the period in question; during that period there would be no consultations for the purpose of checking the implementation of the general policy indicated;

(ii) The decision regarding the granting of aid would depend solely on analysis of the causes of the drop in earnings and not on the manner of implementation of the economic policies indicated, such analysis to include the determination, by consultation, of whether the drop in income is due to circumstances beyond the control of the country concerned.

6. COMPENSATORY FINANCING SCHEME

It is recommended:

(a) That the need should be stressed for drawings on the International Monetary Fund under the compensatory financing scheme to be automatic also between 25 and 50 per cent of the countries' quotas in the Fund.

(b) That it be provided that such drawings are not subject to any conditions.

(c) That the formula for calculating the sums compensatable be modified, the exports during the three years immediately preceding the compensation being taken as the basis.

7. REFORM OF THE INTERNATIONAL MONETARY SYSTEM

In view of the fact that this matter is under consideration at the annual meeting of the Board of Governors of IMF in Rio de Janeiro, it is considered undesirable to make any technical recommendations concerning it at present. At the Algiers meeting, at UNCTAD II and in other international gatherings, the Latin American countries will have an opportunity to adopt positions which they feel are consistent with their

interests, both in respect of changes in the international monetary system, and of related matters, particularly trade, development financing and regional financial integration. In this connexion, the Latin American delegations intend, at international gatherings at which these matters are considered, to co-ordinate their activities among themselves and with the delegations of other developing countries.

8. CO-ORDINATED ACTION IN INTERNATIONAL FINANCIAL ORGANIZATIONS

It is recommended that the Latin American countries direct their activities at the Algiers meeting and at UNCTAD II in such a way as to harmonize their views with those of other developing countries concerning the policies followed by the international financial organizations with respect to such matters as facilities of access to these organizations' resources, voting power and improvement of the machinery for balance of payments adjustments. For this purpose, the Latin American countries will be guided by the positions taken on the relevant questions at the annual meetings of IMF and IBRD.

IV. CONCLUSIONS AND RECOMMENDATIONS ON THE SHIPPING PROBLEMS OF THE DEVELOPING COUNTRIES

1. INTERNATIONAL LEGISLATION

(a) During the debate on international legislation on shipping at UNCTAD II it should be emphasized that the agreements on maritime trade practices and customs were entered into at a time when the interests of the developing countries were insignificant;

(b) The inclusion of an item entitled "International legislation on shipping" in the work programme of the Committee on Shipping should be requested. The Committee should have such advice as it may deem necessary and it should be recommended to bear in mind in its studies such factors as the compilation, comparison and uniformity of the relevant legislation.

2. RECOMMENDATIONS REGARDING FREIGHT RATES

(a) The countries members of UNCTAD should be urged to co-operate with the secretariat in drawing up as soon as possible a programme of studies on maritime freight.

(b) It should be recommended that in fixing freight rates consideration should be given to

the need for placing the products of the developing countries on international markets under competitive conditions.

(c) The Latin American countries should express their grave concern at the fact that conference freight rates are not only continuing to rise but are still discriminatory and restrictive vis-à-vis the developing countries.

(d) The widespread practice of fixing special freight rates for the transport of non-traditional products of the developing countries should be condemned.

(e) The application of incentive freight rates designed to promote the export from the developing countries of manufactures which they have produced with their own raw materials should be recommended. Such rates might be fixed at levels which would merely cover the marginal and supplementary costs involved in the transport of these goods.

(f) The UNCTAD secretariat should be urged to conclude its studies on the fixing of routes as soon as possible.

3. SHIPPING CONFERENCE PRACTICES

(a) Specific action should be taken at UNCTAD II with a view to abolishing those shipping conference practices which are detrimental to the developing countries, such as:

(i) The "closed" nature of many conferences;

(ii) The fact that the conferences are not effectively represented in a number of major ports of the developing countries;

(iii) The fact that shipping rates and other conditions of carriage are not published at all or are given insufficient publicity.

(b) In this connexion, UNCTAD II should be recommended to adopt the following principles:

(i) Recognition of the fact that the developing countries are fully entitled to take part in any freight conference which affects their maritime traffic;

(ii) Recognition of the right of shipowners in developing countries to take part in freight conferences on an equal footing with shipowners of the developed countries;

(iii) A freight conference concerned with the export traffic of a developing country should be represented in that country;

(iv) The right of the developing countries to be fully informed of the structure and fixing of freight rates and other shipping conditions of carriage applied to the products involved in their trade and also to be advised sufficiently in advance of any change in such rates and conditions.

4. TECHNICAL ADVANCES IN SHIPPING

(a) It should be recommended that the study to be submitted by the secretariat to UNCTAD II should take into account the implications of the technical advances in shipping in respect of the organization and structure of shipping conferences, cost levels, rate structure, and techniques of port operation and organization.

(b) UNCTAD II should be recommended to make preparations forthwith for a study of the various regulatory and administrative measures arising from the adoption of these new techniques.

5. EXPANSION OF THE MERCHANT MARINES OF THE DEVELOPING COUNTRIES

(a) Reiteration of the inalienable right of the developing countries to determine the size of their domestic merchant marines in relation to the freight position and prospects generated by their foreign trade should be reaffirmed.

(b) The developing countries should endeavour to make the maximum use of their shipping industries in order to meet the requirements arising from policies of expansion of their merchant marines.

(c) The domestic legislation enacted by the developing countries with a view to achieving the objectives set forth in the two preceding sub-paragraphs should not be regarded as discriminatory nor should it lead to the adoption by the developed countries of retaliatory or other measures which might have the effect of rendering ineffective the measures taken by the developing countries.

(d) UNCTAD II should be recommended to adopt measures designed to provide for such bilateral or multilateral financing as may be required to expand the merchant marines of the developing countries. Criteria should be laid down to ensure that such financing is granted to genuine national enterprises.

(e) It should be recommended that the study to be submitted by the secretariat to UNCTAD II take into account the implications of the technical advances in shipping for the expansion of the merchant marines of the developing countries.

6. CONSULTATION MACHINERY

UNCTAD should be recommended to endorse the resolution of the Committee on Shipping so as to enable it to consider at its next session a programme of specific action in collaboration with UNDP and the regional economic commissions, designed to give effect to the proposals in the said resolution on the establishment of national and regional consultation machinery in various parts of the world in accordance with the provisions adopted.

7. PORT IMPROVEMENT

(a) Practical measures should be adopted at UNCTAD II with a view to ensuring that the savings obtained from the improvement of port facilities are immediately benefiting the developing countries through reduction of freight rates.

(b) It should be recommended that the studies on this subject which are being made by the UNCTAD secretariat should include an examination of possible schemes of financing and technical assistance for programmes relating to port infrastructure and operation in the developing countries, taking into account the implications of technical advances in shipping.

V. TRADE EXPANSION AND ECONOMIC CO-OPERATION AMONG DEVELOPING COUNTRIES

An increase in trade among developing countries and schemes for their integration and economic co-operation cannot be regarded as a substitute for improved trade relations between developed and developing countries, but they can be considered as an effective complement to the means of promoting the economic and social development of the developing countries.

With a view to promoting the expansion of trade among developing countries at the regional and world level, the Latin American countries members of CECLA have agreed on the following points:

1. It is desirable to strengthen and speed up processes of regional and sub-regional economic integration as the most appropriate method of expanding intra-area trade and of promoting the harmonious development of the countries participating in those processes.

2. Under regional or sub-regional economic integration agreements, the developing countries will proceed with the systematic elimination of charges and other non-tariff restrictions on mutual trade and will give due consideration to the special situation of the economically less developed among the developing countries by granting them commercial, financial and other advantages.

3. Developing countries in different regions may negotiate the granting to one another of special advantages which are not to be extended to developed countries. The latter countries should support, in the competent forums, the granting of such authorizations or waivers as may be necessary for the purpose.

4. The developing countries should seek to improve the infrastructure of transport and com-

munications with other developing countries or areas, as well as payments systems and machinery and their working practices, so as to encourage mutual trade. They should also exchange commercial experience and information.

5. The developed countries and the competent international agencies should give their full support to requests addressed to them, through the organs of integration, for technical and financial assistance in launching and accelerating the processes of regional or sub-regional economic integration and in adjusting to structural changes, particularly in industry and the employment of labour.

6. Those developed countries which grant tied loans to developing countries should agree to the use of the resources so provided to make purchases in other developing countries, especially countries in the same region.

7. The developed countries should give up receiving from developing countries trade preferences which discriminate against other developing countries, or should at least agree to the unilateral extension of such preferences to all the developing countries.

8. The developed countries and the international and regional financial agencies should promote the establishment or modernization, in the developing countries, of industries geared to the export of manufactures and semi-manufactures to the world or regional market under competitive conditions with regard to quality and price. As part of the processes of regional integration, they should promote the installation, in the economically less developed among the developing countries, of industries geared to the expanded market.

VI. EXPANSION OF TRADE WITH THE CENTRALLY-PLANNED-ECONOMY COUNTRIES

1. The developing countries should urge the developed countries with centrally planned economies to give full effect to the agreements reached and offers made at the first UNCTAD to set targets for the expansion of their import trade in products originating from developing countries.

2. In connexion with the measures requested from the developed countries by the developing countries in the matter of free access and preferential treatment, the developed countries with centrally planned economies should;

(a) Include in their purchasing plans increasing volumes of products originating from developing countries; and assign to developing countries an ever-growing share of the increase in their imports of manufactures and semi-manufactures.

(b) Take the necessary steps to reduce the margins between the import prices and the domestic selling prices of products originating from the developing countries, and thus promote the consumption of those products.

(c) Under those bilateral agreements with developing countries in which provision is made for payments accounts, agree to greater flexibility in the use of the developing countries' credit balances both within and outside the socialist area. Machinery should be established for a gradual increase in the proportion of bilateral trade which is paid for in convertible currency.

(d) Grant preferential access conditions for products originating from developing countries.

These conditions should include the establishment, in their international purchasing policies, of margins of tolerance in favour of the developing countries with regard to prices and delivery terms. In the event that the announced changes in the economic structure of the socialist countries should assign to tariffs a more important part in their foreign trade policy, preferential tariff measures should be adopted in favour of products originating from developing countries.

CHARTER OF ALGIERS¹

Adopted by the Ministerial Meeting of the Group of 77
on 24 October 1967

PART ONE

The representatives of developing countries, assembled in Algiers in October 1967 at the Ministerial Meeting of the Group of 77, united by common aspirations and the identity of their economic interests, and determined to pursue their joint efforts towards economic and social development, peace and prosperity,

Having reviewed the work of the international community for economic progress since the adoption of the Joint Declaration of the 77 Developing Countries at the conclusion of UNCTAD I in 1964,

Have decided to chart a common course of action as conceived in the African Declaration of Algiers, the Bangkok Declaration of Asian countries and the Charter of Tequendama of Latin American countries,

Deem it their duty to call the attention of the international community to the following facts:

I

The lot of more than a billion people of the developing world continues to deteriorate as a result of the trends in international economic relations;

The rate of economic growth of the developing world has slowed down and the disparity between it and the affluent world is widening;

While the developed countries are adding annually approximately 60 dollars to the per capita income of their people, the average increase of per capita income in the developing world amounts to less than 2 dollars per annum;

The share of the developing countries in total world exports declined from 27 per cent in 1953 to only 19.3 per cent in 1966. In the first half of the 1960's total world exports grew at an average annual rate of 7.8 per cent and exports

of developing countries, excluding oil exports, grew at an average rate of 4 per cent only. While the value of exports of manufactures from industrial countries increased between 1953-54 and 1965-66 by 65 billion dollars and from socialist countries by 10 billion dollars, the increase from developing countries amounted to only 3 billion dollars;

The purchasing power of exports from developing countries has been steadily declining. In the mid-1960's the developing countries have been able to buy, for a given volume of their traditional exports, one-tenth less imports than at the beginning of this period. The loss in purchasing power amounted annually to approximately 2.5 billion dollars, which represents nearly half of the flow of external public financial resources to developing countries;

This has aggravated the problem of the increasing indebtedness of developing countries. The external public debt alone has increased from 10 billion dollars in 1955 to 40 billion in 1966. While the debt service payments averaged half a billion dollars annually in the mid-1950's these have already increased to 4 billion dollars and may offset the entire transfer of resources before the end of this decade if present trends continue; they already equal the entire amount of grants and grant-like contributions;

Although modern technology offers developing countries great possibilities to accelerate their economic development, its benefits are largely by-passing them due to its capital and skill intensive nature, and is drawing away from them such limited skills as are developed;

The virtual stagnation in the production of foodstuffs in developing countries, in contrast with the rapid increase in population, has aggravated the chronic conditions of undernourishment and malnutrition and, combined with the distortion of production and trading patterns by artificial means, threatens to give rise to a grave crisis.

¹ This document, original English, was circulated at the second session of UNCTAD at the request of the delegation of Algeria.

II

The concern over these economic and social trends and the joint efforts of the developing countries to correct them have progressively led the international community to embark on a series of initiatives culminating in the Final Act adopted in 1964 by UNCTAD I; however, the promise held out by the Final Act has not been realized. In fact, in spite of the provisions of the Final Act of UNCTAD I:

No new commodity agreement on primary products of interest to developing countries has been concluded;

The standstill has not been observed by the developed countries and they have increased the degree of protection in many of those agricultural products in which developing countries are more efficient producers;

While the average prices for primary products exported from developing countries have decreased by 7 per cent since 1958, those for primary products exported from developed countries increased by 10 per cent in the same period;

Heavy fiscal charges continue to be levied on products of export interest to developing countries;

The proliferation and promotion of synthetic substitutes in developed countries has resulted in shrinking markets and falling prices for competing natural products produced by developing countries;

Insufficient progress has been made by developed countries in dismantling import tariffs on tropical products without prejudice to the interests of certain developing countries;

Little or no progress has been achieved in the relaxation of quota restrictions that are applied particularly to industrial products imported from developing countries; nor did the situation improve for some temperate zone products whose access to the developed countries is governed by restrictive measures and policies applied by the developed countries;

The implicit discrimination in tariff policies towards developing countries has been further intensified as a result of the process of economic integration among some developed countries and also as a consequence of the Kennedy Round of negotiations;

No progress has been made by developed socialist countries on the recommended transferability of credit balances held with them by developing countries;

The wide disparity between domestic selling prices of goods imported by socialist countries from developing countries and the import prices of such goods creates unfavourable conditions for increases in consumption and import of such goods from developing countries;

In spite of the unanimously agreed target of 1 per cent of national income of financial resources to be provided to developing countries, actual disbursements have levelled off in absolute terms and declined as a proportion of gross national product of developed countries. While in 1961 the flow of development financing to the developing countries amounted to 0.87 per cent of gross national product of developed countries, it came down to 0.62 per cent in 1966;

With a few notable exceptions, the terms and conditions of development finance are becoming more and more onerous; the proportion of grants is declining; interest rates are increasing; repayment periods are shortening and development loans are becoming increasingly tied;

Discriminatory practices and arrangements in the field of shipping and increasing freight rates have aggravated further the balance-of-payments position and hindered the effort to promote the exports of developing countries.

III

The international community has an obligation to rectify these unfavourable trends and to create conditions under which all nations can enjoy economic and social well-being, and have the means to develop their respective resources to enable their peoples to lead a life free from want and fear.

In a world of increasing interdependence peace, progress and freedom are common and indivisible. Consequently the development of developing countries will benefit the developed countries as well.

Developing countries reiterate that the primary responsibility for their development rests on them.

Developing countries are determined to contribute to one another's development.

However, a fuller mobilization and more effective utilization of domestic resources of developing countries is possible only with concomitant and effective international action.

Traditional approaches, isolated measures and limited concessions are not enough. The gravity of the problem calls for the urgent adoption of a global strategy for development requiring convergent measures on the part of both developed and developing countries.

The establishment of UNCTAD and the dialogue which has taken place within it constitute a step towards a new and dynamic trade and development policy. What is needed now is to move from the stage of deliberation to the plane of practical action.

Developing countries expect that UNCTAD II will concentrate on a common endeavour for accelerated economic and social development. The agreement which has recently emerged on the basic issues to be negotiated reflects the general feeling in this respect.

To this end the representatives of developing countries at the Ministerial Meeting of the Group of 77 have considered carefully the present state of affairs and suggest the following programme of action as the most urgent and immediate step to be taken by UNCTAD II.

PART TWO — PROGRAMME OF ACTION

A. COMMODITY PROBLEMS AND POLICIES

1. COMMODITY POLICY

(a) *Commodity arrangements*

(i) Commodity problems should, where appropriate, be dealt with by international commodity arrangements negotiated on a commodity-by-commodity basis;

(ii) Producing developing countries should consult and co-operate among themselves in order to defend and improve their terms of trade by effective co-ordination of their sales policies;

(iii) A Cocoa Agreement should be concluded before the end of 1967 and an Agreement on Sugar early in 1968;

(iv) Commodity arrangements for oil seeds and vegetable oils, bananas, rubber, tea, sisal and hard fibres should be concluded at the earliest possible date;

(v) Appropriate action should be taken on an urgent basis in respect of iron ore, nickel, tobacco, cotton, wine, citrus fruit, manganese ore, pepper, mica, shellac and tungsten.

(b) *Buffer stocks*

Buffer stock techniques as a short-term measure for market stabilization should, where appropriate, be one of the methods adopted for international commodity arrangements, and international financing institutions and developed countries should participate in their pre-financing, while, with regard to their regular income, producing and consuming countries should devise a formula ensuring an equitable distribution of costs.

(c) *Diversification programmes*

Developed countries and the appropriate international financial institutions should make available additional financial and technical assistance to developing countries, including specific funds, in order to facilitate the carrying out of diversification programmes, highest priority being given to diversification in the programmes on inter-regional, regional and sub-regional levels in the process of trade expansion and economic integration among developing countries. These specific funds for diversification should be one of the features of commodity agreements.

(d) *Pricing policy*

The main objectives of pricing policy should be: (i) elimination of excessive price fluctuations; (ii) the highest possible earnings from the exports of primary products; (iii) maintenance and increase of the purchasing power of the products exported by developing countries in relation to their imports; and (iv) that developed countries undertake to assist in achieving more stable and higher prices for unprocessed and processed commodities from developing countries by applying adequate domestic taxation policies.

2. TRADE LIBERALIZATION

(a) *Standstill*

No new tariff and non-tariff restrictions should be introduced by developed countries and those introduced since UNCTAD I should be eliminated by 31 December 1968.

(b) *Removal of barriers*

(i) All restrictions and charges applied by developed countries to primary commodities including semi-processed primary products originating exclusively from developing countries should be removed;

(ii) A programme of specific commitments should be elaborated with a view to eliminating tariff and non-tariff barriers, including duties and revenue charges, on all products;

(iii) Pending the elimination of internal duties and revenue charges a system of partial refund should be introduced to lead progressively on an annual basis to full refund;

(iv) The tariff reductions offered during the Kennedy Round of negotiations on primary products of export interest to developing countries should be implemented without phasing and without reciprocity in favour of all developing countries.

(c) *Preferences*

The representatives of the developing countries at the Ministerial Meeting of the Group of 77, (i) bearing in mind the desire expressed by all members of the Group of 77 to apply recommendation A.II.1, Section II, paragraphs 3 and 6 concerning the elimination of preferences, adopted unanimously at UNCTAD I, and noting that the abolition of preferences requires that the developed countries grant equivalent advantages to the countries which at present enjoy such preferences; (ii) noting that the developed countries have not so far taken effective measures for the implementation of this recommendation; (iii) considering that, in the case of certain commodities, the special preferences in force could be reduced or even abolished through international agreements:

Decided to request the Secretary-General of UNCTAD and the regional groups to undertake studies, commodity-by-commodity and country-by-country on the effect of the abolition of the special preferences in force and the steps necessary to ensure that countries which at present enjoy such preferences receive advantages at least equivalent to the losses resulting from abolition.

(d) *Minimum share of markets*

(i) Where products of developing countries compete with the domestic production of developed countries, the latter should allocate a

defined percentage of their consumption of such products to developing countries; in any case, a substantial share of any increase in domestic demand for primary commodities in the developed countries should be reserved for the output of the developing countries. This allocation should be arrived at on a country-by-country and commodity-by-commodity basis, through multilateral negotiation; developed countries should agree to establish maximum ratios of domestic production so as to guarantee to developing countries adequate conditions of access for their exports;

(ii) The developed countries should adopt measures to discourage uneconomic production of commodities which compete with those originating from developing countries and should abolish subsidies on such competing products.

(e) *Surpluses and reserve stock disposal*

The existing machinery for consultation on surplus disposal should be widened and reinforced and suitable machinery should be established, where such arrangements do not exist, in order to ensure that disposal of production surpluses or strategic reserves does not result in the depression of international prices, and does not adversely affect the exports of developing countries or the intraregional trade and agricultural development of developing countries and the position of developing countries receiving those surpluses as assistance.

(f) *Use of escape clauses*

Objective criteria should be adopted under a multilateral institutional arrangement for identifying situations on which restrictions are applied by virtue of safeguard clauses and the unilateral application of restrictions should be avoided.

3. SYNTHETICS AND SUBSTITUTES

(i) Special measures in the field of finance, technical assistance and marketing, including financing of research, abolition of subsidies and granting of preferences should be taken to improve the competitive position of natural products of developing countries that are affected by the competition of synthetics and substitutes originating from developed countries;

(ii) The provision of Special Principle Nine of the Final Act of UNCTAD I on dumping should be implemented with special reference to the marketing of synthetic products.

B. EXPANSION OF EXPORTS OF MANUFACTURES AND SEMI-MANUFACTURES

1. PRINCIPLES FOR A GENERAL SYSTEM OF PREFERENCES

The following principles should be adopted in order to implement a general system of preferences. They should be accepted simultaneously as complementary and indivisible measures.

(a) At UNCTAD II there should be negotiations which should lead to the conclusion of an agreement on a general system of tariff preferences on a non-discriminatory and non-reciprocal basis. The agreement should provide for unrestricted and duty-free access to the markets of all the developed countries for all manufactures and semi-manufactures from all developing countries;

(b) Without prejudice to the general provisions contained in paragraph (a) above, the escape clause actions as envisaged below may be taken; in particular special treatment may be granted by developed countries to the less developed among the developing countries;

(c) The manufactures and semi-manufactures covered by the preferential system should include all processed and semi-processed primary products of all developing countries;

(d) All developed countries should grant such preferences to all developing countries;

(e) The form of the escape clause action, the objective criteria which should govern the application of escape clause action by developed countries and the procedures that should be followed in such cases must be agreed upon internationally. Such action must however be temporary in nature and be subject to international consultation, approval and review;

(f) The preferential system must be conceived in such a way as to make it possible for the least advanced among the developing countries to share in its benefits. Accordingly any time limits of the system should be flexible so that countries at present in very incipient stages of developing will also be able to reap its advantages. Escape clause actions limiting or excluding particular exports should not apply to the less competitive products from less advanced countries. Specific commitments should be taken for technical and financial assistance in the establishment of export oriented industries in least advanced countries, with a view to markets both in the developed world and in other developing countries;

(g) The new system of general preferences should ensure at least equivalent advantages to

developing countries enjoying preferences in certain developed countries to enable them to suspend their existing preferences on manufactures and semi-manufactures. From the beginning, provisions should be incorporated in the system of general preferences, for the developed countries to redress any adverse situation which may arise for these developing countries as a consequence of the institution of the general system of preferences;

(h) In order to achieve the objective of the general preferential system the arrangement should last long enough to enable all developing countries to benefit from it. Initially the arrangement should last for twenty years and should be reviewed towards the end of this initial period. In any event the preferential treatment should not thereafter be abruptly terminated;

(i) In order that the general system of preferences makes adequate contribution to the balance of payments of the developing countries, the developed countries should not reduce their aid to them or nullify or impair the benefits of preferences through other measures;

(j) Suitable machinery within UNCTAD should be established to supervise and ensure the effective implementation of a general system of preferences in accordance with the foregoing paragraphs.

2. LIBERALIZATION OF TRADE IN MANUFACTURES AND SEMI-MANUFACTURES

(a) The developed countries should implement immediately, without phasing, in favour of all developing countries, concessions agreed on during the Kennedy Round of trade negotiations, on products of export interest to the latter countries;

(b) The developed countries should state at UNCTAD II that all concessions agreed on during the Kennedy Round of trade negotiations on products of export interest to developing countries would be extended at the time of implementation to all developing countries whether or not members of the GATT, without reciprocity;

(c) At UNCTAD II both developed and developing countries should on the basis of the evaluation of the Kennedy Round being prepared by the UNCTAD and GATT secretariats and those prepared by governments themselves identify all outstanding issues for further negotiations. The principles of the most-favoured-nation treatment and reciprocity should in no

way be introduced in these negotiations. In these negotiations all developing countries should be allowed to participate if they so desire;

(d) The developed countries should implement the agreements reached at UNCTAD I on liberalization for manufactures and semi-manufactures of export interest to the developing countries, particularly as regards the principle of the standstill;

(e) The developed countries should establish at UNCTAD II a concrete programme for the removal of quantitative restrictions at an early date, particularly those which are applied by them inconsistently with their international obligations, and also give an undertaking not to renew existing restrictions or impose new quantitative restrictions, nor adopt any other measures having equivalent effects on products of export interest to developing countries;

(f) Developed countries should supply all relevant information to the UNCTAD secretariat in respect of non-tariff barriers other than quantitative restrictions applied in the markets of the developed countries for examination at UNCTAD II;

(g) Objective criteria should be established for the application of restrictions to trade in products from developing countries under escape clauses relating to "market disruption" and other "special circumstances" applied by developed countries, so that such situations may be defined, provisions may be laid down specifying what measures restrictive of trade can legitimately be applied when such a situation is found to exist, and compensation may be fixed which corresponds to the loss or damage suffered by the developing countries. Multilateral consultative and supervisory machinery should be set up for that purpose. The developed countries should undertake measures for anticipatory structural readjustments and other measures for bringing about such changes in their production patterns as to eliminate the possibility of resorting to restrictive trade policies or escape clause actions on ground of market disruption in relation to products of export interest to developing countries in order to establish a new international division of labour that would be more equitable. The developed countries should not promote the development in their territories of industries of particular interest to the developing countries. In those cases where developed countries have invoked escape clauses on grounds of market disruption, they should make the appropriate domestic structural adjustments;

(h) The developed countries should take appropriate action to carry out readjustments in the tariff nomenclatures of their countries so as to facilitate the granting of duty-free entry on products exported by and large by developing countries;

(i) The machinery which would be established to supervise the effective implementation of a general system of preferences should also supervise the programme for the elimination of tariff and non-tariff barriers, and the application of escape clauses, in particular any such barriers which prejudice or nullify the scheme of general preferences.

3. TRADE WITH SOCIALIST COUNTRIES

The socialist countries should grant concessions to the developing countries whose advantages are at least equivalent to the effects of preferences which would be granted by the developed countries with market economies.

The socialist countries should:

(a) Adopt and implement measures designed to increase the rate of growth of the imports of manufactures and semi-manufactures from developing countries, and to diversify such imports in consonance with the latter's trade and development requirements;

(b) Undertake to contribute to the maintenance of remunerative and stable prices for the exports of developing countries by the inclusion of suitable provisions in their trade agreements with these countries;

(c) In drawing up their national and regional development plans take due account of the production and export potential in developing countries;

(d) Abolish customs duties and other trade restrictions on goods imported from and originating in developing countries;

(e) Eliminate the margin between the import price and the domestic selling price of the goods imported from developing countries;

(f) Refrain from re-exporting the goods purchased from developing countries, unless it is with the consent of the developing countries concerned;

(g) Encourage conclusion of industrial branch agreements for the supply of plant and equipment on credit to the developing countries, accepting repayment of such credits in particular with the goods manufactured by such plant in the developing countries concerned;

(h) Multilateralize, to the extent possible, among the socialist countries of Eastern Europe,

payments arrangements with developing countries to facilitate increase of imports from the latter;

(i) Grant preferential access conditions for products originating from developing countries. These conditions should include the establishment, in their international purchasing policies, of margins of tolerance in favour of the developing countries with regard to prices and delivery terms;

(j) Within the framework of UNCTAD to set up permanent consultative machinery through which socialist countries and developing countries may promote mutual trade and economic co-operation, and solve the problems and obstacles which may arise.

4. TRADE PROMOTION

(a) Diversification of production of manufactures and semi-manufactures of developing countries should be carried out within the framework of a new and more equitable international division of labour between developing and developed countries;

(b) Developed countries should abstain from harming the interests of developing countries by fostering production of commodities produced principally by developing countries, and, in that regard, they should encourage the establishment in the developing countries of export industries processing primary commodities produced by the latter;

(c) Developed countries and international agencies should channel more, and more effective, technical and financial assistance in order to improve the productivity of the developing countries' industries and their competitiveness in international markets;

(d) International co-operation should also be secured with a view to the dissemination of trade information, particularly with regard to the opportunities offered by the developed countries' markets. To that end, the developing countries should support the establishment of the joint UNCTAD-GATT trade promotion centre and obtain the financial and technical support of the developed countries for its operation. Also a close and continuing co-operation between UNIDO and UNCTAD should be promoted, on the general understanding that, as stated in General Assembly resolution 2152 (XXI), "the former shall be competent to deal with the general and technical problems of industrialization, including the establishment and expansion of industries in developing countries, and the latter with the foreign trade aspects of industrialization, including the expansion and diversification of exports of manufactures and semi-manufactures by developing countries". Furthermore, developing countries should take into consideration the possibility of the establishment of a single export promotion centre within the United Nations family under the auspices of UNCTAD.

C. DEVELOPMENT FINANCING

1. FLOW OF INTERNATIONAL PUBLIC AND PRIVATE CAPITAL

(a) Each developed country should comply with the target of a minimum 1 per cent of its gross national product for net financial flows, in terms of actual disbursements, by the end of the Development Decade. A separate minimum target, within this goal, and progressively increasing, should be established for the official component of aid flows, net of amortization and interest payments;

(b) Any gaps remaining in the 1 per cent transfer each year should be made good by additional government transfers;

(c) Resources of the International Development Association (IDA) should be immediately replenished and augmented;

(d) Developed countries and financial institutions should extend and intensify their support to regional development banks;

(e) The International Bank for Reconstruction and Development (IBRD) should be made a Development Bank for developing countries exclusively. Total repayment of current loans by developed countries in advance of maturity should be secured. Such released funds should be used to augment resources of IBRD and IDA to finance development of developing countries;

(f) There should be no discrimination by international lending institutions against the public sector, in particular in industry;

(g) Special consideration should be given to developing countries which have not so far received adequate international aid;

(h) Private investments should be of permanent benefit to the host developing country. Subject to nationally-defined priorities and within the framework of national development plans, private investments may be encouraged by incentives and guarantees;

(i) No developed countries should decrease the existing level of their aid to developing countries, especially those forms of aid granted through negotiations.

2. TERMS AND CONDITIONS OF DEVELOPMENT FINANCE

(a) By 1968, the norms of lending laid down by General Assembly resolution 2170 (XXI) and the Development Assistance Committee of OECD should be reached;

(b) Beyond a date to be internationally agreed, all development lending should be on terms currently applied by IDA. In regard to earlier loans or loans on other than IDA terms, the interest should be subsidized by governments of developed countries;

(c) Pending the general adoption of IDA terms, there should be a considerable lowering of interest rates and a considerable increase in maturities and grace periods;

(d) A multilateral interest equalization fund should be created to cover the interest margin between loans obtained on international capital markets and concessional development loans;

(e) Development finance should be rapidly and progressively untied, with a view to reaching the goal of total untying by a specific date; excess costs incurred through tying should be subsidized by creditor countries; procurement in developing countries should be freely permissible, especially within the same region;

(f) External finance should be made available both for programmes and for projects and should include local costs where necessary;

(g) Development finance commitments should be on a continuing basis to cover plan programmes over a period of years;

(h) Appropriate steps should be taken to improve the administration of development finance;

(i) An intergovernmental group with equitable representation of developed and developing countries should be established to deal with all aspects of commercial credits, including suppliers' credits.

3. PROBLEMS OF EXTERNAL INDEBTEDNESS

Suitable measures should be adopted for alleviating the debt-servicing burdens of developing countries by consolidation of their external debts into long-term obligations on low rates of interest. In case of imminent difficulties, speedy arrangements should be made

for refinancing and re-scheduling of loans on "soft" terms and conditions.

4. MOBILIZATION OF FINANCIAL RESOURCES

Developing countries recognize that they should, to the fullest extent possible consistent with smooth economic growth and social stability, continue to mobilize their domestic resources for financing their development process. They recall, however, that the utilization of these resources cannot be fully effective without the necessary external assistance.

5. SUPPLEMENTARY FINANCING

UNCTAD II should negotiate an agreement for early implementation of a scheme of supplementary financing on the basis of a consensus to be reached after considering the report of the Intergovernmental Group on Supplementary Financing on the World Bank study.

In no case should the scheme involve internal policy commitments which prejudice the sovereignty of any member country as defined by that country, the means for achieving this objective to be further discussed at the forthcoming meeting of the Inter-Governmental Group on Supplementary Financing and negotiated at UNCTAD II. These discussions and negotiations should take account, *inter alia*, of the positions expressed in the regional declarations of the developing countries.

6. COMPENSATORY FINANCING FACILITY

The developing countries ask that:

(a) Drawings on the International Monetary Fund under the Compensatory Financing Facility should be immediately available up to 50 per cent of the countries' quotas in the Fund, and that such drawings are not subject to any conditions;

(b) The formula for calculating shortfalls be modified, taking as the basis the exports of each of the countries concerned either during three normal years or more, preceding the payment of compensation;

(c) Due consideration should be given to refinancing debts incurred by developing countries during periods of persistent shortfalls in their export earnings, including a revision of current repurchase time limits.

7. INTERNATIONAL MONETARY ISSUES

(a) Developing countries should participate from the outset in all discussions on interna-

tional monetary reform and in the operation of the new arrangements for Special Drawing Rights in the International Monetary Fund;

(b) A link between development finance and additional liquidity should be forged as urged by the developing countries;

(c) The developing countries are intimately concerned with the policies of international financial organizations relating to use of their resources, voting power and the improvement of machinery for balance-of-payments adjustments.

D. INVISIBLES, INCLUDING SHIPPING

Developing countries reaffirm the competence of UNCTAD in shipping matters.

1. INTERNATIONAL SHIPPING LEGISLATION

(a) Developing countries ask that UNCTAD II should include "international shipping legislation" in the work programme of the Committee on Shipping which should use such technical and export advice as may be necessary;

(b) In accordance with the obligations undertaken by the international community, all developed countries should give full co-operation to the UNCTAD secretariat by providing complete information for studies being carried out by it in the field of shipping including freight rates, conference practices, adequacy of shipping services, etc.;

(c) These studies should take into account the implications of technical advances in shipping in respect of the organization and structure of conferences, cost levels, rate structure and techniques of port organization and operations as well as the implications of technical advances for the expansion of merchant marines of developing countries.

2. FREIGHT RATES AND CONFERENCE PRACTICES

(a) Immediate steps are needed at UNCTAD II to provide a basis for future action on freight rates which are not only continuing to rise but are still discriminatory and restrictive vis-à-vis the developing countries;

(b) Developed countries should press freight conferences and shipowners to abolish the widespread practice of fixing special high freight rates for the transport of non-traditional products of the developing countries and to lower freight rates applied to traditional exports of the developing countries;

(c) Developing countries ask UNCTAD II to adopt the following principles:

(i) The right of developing countries to take part in any freight conference affecting their maritime traffic on an equal footing with the shipowners of developed countries;

(ii) Freight conferences to have representation in developing countries;

(iii) Publication of information, including advance publication of any proposed changes on freight rates and other cargo arrangements by freight conferences affecting the foreign trade of developing countries;

(d) Developing countries should intensify their co-operation amongst themselves, *inter alia* on a regional basis, to secure maximum benefits and better bargaining positions in the field of shipping, in particular regarding freight rates.

3. EXPANSION OF MERCHANT MARINES

(a) Developing countries affirm their unquestionable right to establish and to expand their merchant marines in the context of rising freight rates and the prospects of their foreign trade;

(b) Developed countries and international agencies should extend financial and technical assistance to developing countries for the establishment and expansion of national and regional merchant marines and related facilities. Such assistance should include the training of personnel in the economic, managerial, technical and other aspects of shipping. Financing arrangements should be in favour of national enterprises;

(c) All countries should recognize the right of developing countries to assist their merchant marines, including the right to reserve a fair share of the cargo transported to and from those countries;

(d) The regulations enacted by developing countries with a view to achieving the objectives aforementioned should not be considered justification for the adoption of retaliatory or other measures by the developed countries and their shipping conferences which may have the effect of rendering ineffective the measures taken by the developing countries;

(e) Developing countries should be enabled to make the maximum use of their shipbuilding industries and expand them.

4. CONSULTATION MACHINERY

(a) Specific action should be taken by UNCTAD in collaboration with UNDP and the regional economic commissions to give effect to the resolution of the Committee on Shipping on the establishment of national and regional consultation machinery in various parts of the world in accordance with the provision adopted;

(b) Financial and technical assistance should be given to developing countries for the establishment of such machinery where necessary.

5. PORT IMPROVEMENTS

(a) Practical measures should be devised at UNCTAD II for financing and giving technical assistance to developing countries for port development and allied works and programmes relating to port operation, taking into account technical advances in shipping;

(b) Measures should be devised at UNCTAD II for ensuring that savings achieved by the improvement of port facilities in shipping operations are utilized to the advantage of developing countries through reduction of freight rates in respect of the port achieving such improvement.

6. INSURANCE AND RE-INSURANCE

(a) Developed countries should reduce the cost of re-insurance to developing countries;

(b) A substantial part of the technical reserves of the insurance and re-insurance companies should be retained in the countries where premium incomes arise for re-investment in those countries;

(c) Developing countries should be technically and financially assisted in building up their own insurance and re-insurance facilities.

7. TOURISM

(a) Developed countries and financing institutions should extend credits on easy terms to developing countries for promoting tourism;

(b) Developed countries and international credit institutions should make investments in infrastructure in tourism in developing countries;

(c) Passenger fares to developing countries should be concessional and attractive and other facilities should be provided in order to encourage tourist traffic.

E. GENERAL TRADE POLICY ISSUES

1. PRINCIPLES GOVERNING INTERNATIONAL TRADE RELATIONS AND TRADE POLICIES CONDUCTIVE TO DEVELOPMENT

(a) UNCTAD II should review the implementation of the principles governing international trade relations and trade policies conducive to development;

(b) In compliance with recommendations A.I.1 and A.I.3 of the Final Act of UNCTAD I which leave open the completion of these principles, UNCTAD II may elaborate new principles. However, principles already adopted would not be subject to re-examination.

2. TRADE RELATIONS AMONG COUNTRIES HAVING DIFFERENT ECONOMIC AND SOCIAL SYSTEMS

(a) The expansion of trade between developed socialist countries of Eastern Europe and developed market economy countries should not unfavourably affect the trading possibilities of developing countries but on the contrary should lead to a rising trade between them and the latter. In pursuance of this objective the socialist countries should provide in their economic

development plans and trade policies measures for accelerated increase of their imports of primary commodities and manufactures and semi-manufactures originating from developing countries;

(b) Socialist countries should also reaffirm the assurances given by them in UNCTAD I that they will refrain from re-exporting the goods purchased from the developing countries unless it is with the consent of the developing countries concerned;

(c) Socialist countries should adopt the necessary measures to reduce the gap between import and sales prices of products originating from developing countries in order to promote the consumption of these commodities; the establishment in the import policies and trade programmes of the socialist countries of margins of tolerance with regard to prices, delivery dates and other conditions relating to exports from developing countries would greatly contribute to the increase of trade between these countries and the socialist countries;

(d) Credit extended by socialist countries for financing public and private projects in

developing countries should be adapted to the particular conditions of the countries concerned; and where possible provisions should be made for repayment by the export of the products of those or other projects;

(e) In case of contracts, concluded between the enterprises in the developing countries and the relevant agencies in the socialist countries, due attention should be given to the periods covered by those contracts in order to enable the enterprises to plan and execute with greater efficiency their investment, production and delivery programmes.

3. IMPACT OF REGIONAL ECONOMIC GROUPINGS

(a) Regional economic groupings of developed countries should avoid discriminating against the exports of developing countries of manufactures, semi-manufactures and of primary products, particularly temperate and tropical agricultural commodities;

(b) The expansion of these groupings should not increase the incidence of any discrimination;

(c) Regional economic groupings of developed countries should take measures with a view to ensuring freer access of the exports of developing countries.

4. INTERNATIONAL DIVISION OF LABOUR

A new and dynamic international division of labour should be applied whereby developed countries avoid taking protective measures affecting agricultural exports of developing countries in fields in which they are more efficient and duplicating investments already made or about to be made by developing countries in industry. Conditions should be created for industrialization in developing countries to make the fullest use of their available resources. The diversification of production of developing countries should also be carried out within a framework of a division of labour that would enable the greatest flow of trade on the one hand among developing countries and on the other hand between these countries and others.

5. THE WORLD FOOD PROBLEM

It was agreed that, in the light of the fact that the item had only recently been introduced,

consultations would be pursued within the Group of 77 with a view to adopting a common position on the world food problem for UNCTAD II.

6. SPECIAL PROBLEMS OF THE LAND-LOCKED COUNTRIES

A group of experts should be established in order to carry out a comprehensive examination of the special problems involved in the promotion of trade and economic development of the land-locked developing countries, with special reference to the high costs involved in the execution of their development programmes and trade expansion programmes. In the light of this examination adequate financial and technical assistance should be extended by international financial institutions to minimize the cost of the factors involved. The international financing agencies should also give priority to such technical and financial assistance programmes as the land-locked developing countries may propose in connexion with the special problems of their trade and development and, in particular, with the development and improvement of their transport infrastructure.

7. TRANSFER OF TECHNOLOGY, INCLUDING KNOW-HOW AND PATENTS

(a) The developed countries should encourage the transfer of knowledge and technology to developing countries by permitting the use of industrial patents on the best possible terms which will enable products manufactured in developing countries to compete effectively in world markets;

(b) They should also promote the elimination of restrictive practices, relating to market distribution and price-fixing, which are imposed by enterprises in developed countries in granting licenses for the use of patents and trademarks in developing countries;

(c) The developed countries should provide guidance to their industrial entrepreneurs regarding investment opportunities in the export industries of the developing countries and familiarize them with legal, political, economic and other relevant information on the situation in the developing countries.

F. TRADE EXPANSION AND ECONOMIC INTEGRATION AMONG DEVELOPING COUNTRIES

(a) The developing countries reaffirm that trade expansion and economic co-operation among themselves is an important element of a global strategy for development, and they are therefore determined to make their own contribution toward the fulfilment of the objectives of UNCTAD II by stepping up their efforts in this respect. Such action can in no way be regarded as a substitute for larger and more remunerative exports to developed countries or for a greater contribution by the latter countries. However, trade expansion and economic integration among developing countries raises special problems and difficulties as compared with similar processes among developed countries. Action with regard to trade barriers will therefore not be enough, but must be combined with suitable measures in other fields, in particular investment matters and payments. In this connexion, the availability of appropriate external financing and technical assistance would be an important contribution for enabling developing countries to achieve more rapid progress in trade expansion and integration efforts. This international support should however be granted in a manner that would fully respect the determination of developing countries to follow their own methods of approach when expanding trade and advancing towards integration among themselves;

(b) The developing countries will inform UNCTAD II of the efforts they are making or planning to make, in order to increase their trade and strengthen their economic co-operation, particularly in the field of inter-regional, regional and sub-regional co-operation;

(c) Since the joint efforts of the developing countries cannot be fully successful without financial and technical aid from the developed countries, the latter should at the same time make a formal declaration of support for the developing countries' efforts at co-operation and integration, specifying the nature and the volume of financial assistance they are prepared to render to those efforts;

(d) At UNCTAD II a special working group should be set up to study the practical problem related to:

(i) Trade expansion, economic co-operation and integration among the developing countries, including consideration of the special problems of the least developed countries;

(ii) The establishment or improvement of multilateral payments systems between developing countries;

(iii) The practical measures for the implementation of an international policy which would support these joint efforts with particular reference to financial and technical assistance.

Regional or sub-regional groups of developing countries should be invited to participate in the working group.

(e) UNCTAD II should establish a permanent Committee whose task would be to study all questions relating to trade expansion and economic integration among developing countries, with particular reference to ways and means of enabling the developing countries participating in such groupings to derive equitable benefits therefrom. This Committee should, in particular, undertake the following activities:

(i) The study, centralization and dissemination of information and data on the experience acquired by developing countries in dealing with specific problems of sub-regional, regional or inter-regional co-operation and integration, and the organization of symposia on such problems for national and regional officials;

(ii) Studies relating to the possibility of establishing export and import groupings by commodity, or by groups of commodities, among developing countries;

(iii) Studies for the improvement of the infrastructure of transport and communications among developing countries;

(iv) Studies of the possibility of establishing national and regional information and trade promotion centres in developing countries;

(f) Consideration should be given to the establishment under the auspices of UNCTAD, and of other specialized agencies, of a special centre to train experts, particularly from developing countries, in the field of economic co-operation and integration among developing countries;

(g) The international information and trade promotion centre which is being established under the sponsorship of UNCTAD and GATT should give due importance to the question of promoting exports among developing countries.

G. SPECIAL MEASURES TO BE TAKEN IN FAVOUR OF THE LEAST DEVELOPED AMONG
THE DEVELOPING COUNTRIES

Owing to the varying stages of economic development existing among the developing countries and to the varying factors responsible for their development, the trade and financial policy measures required to accelerate the pace of economic development would differ from one developing country to another. It is therefore essential to devise a global strategy of convergent measures in order to enable the least developed among the developing countries to derive equitable benefits so that all the developing countries would gain comparable results from international economic co-operation of member countries of UNCTAD, particularly that with the developed countries.

The individual measures recommended by UNCTAD I and those that would be recommended by UNCTAD II should be viewed as components of an integrated policy of co-operation for achieving the over-all objectives of trade and expansion and accelerated development. All these measures are inter-related.

While the appropriate mix of the convergent measures required for the least developed countries cannot be determined at this stage, these measures may be devised from the spheres of:

- (a) Commodity policy, including measures of financial and technical assistance for diversification programmes;
- (b) Preferences in trade of manufactures and semi-manufactures;
- (c) Development finance;
- (d) Regional economic integration;
- (e) Invisibles;
- (f) Trade promotion.

With regard to commodity policy the following actions should be recommended to be taken by UNCTAD II:

- (1) Special consideration of the need of the least developed countries in relaxing tariff and

non-tariff barriers affecting access to the markets both in tropical and temperate products;

- (2) Temporary refunds, at least in part, of revenue charges and duties on commodities of particular interest to least developed countries.

With reference to manufactures and semi-manufactures, the recommendation on the general scheme of preferences contained in this document under section B (Expansion of exports of manufactures and semi-manufactures), should be taken into consideration and adopted. This should take place independently of the principle in virtue of which substantial advantages may be granted to the least developed among the developing countries under systems of regional or sub-regional integration; while the latter, where appropriate, attain perfection in the matter of customs duties.

For the purpose of designing special measures for the least developed countries it does not seem to be desirable or convenient to attempt an abstract general definition of such countries nor, at this stage, an *a priori* strict listing of such countries applicable to specific measures considered. Hence this could be better undertaken, in due course, in a form agreed upon by the developing countries.

In order to give effect to the provisions of section G, the Ministerial Meeting decides to establish a working group. The function of the working group shall be to make a special study of the arrangements to be made on the matters referred to in the third paragraph of this section.

Composition of the working group: it is agreed that each regional group shall be represented on this group by five members.

The working group shall meet at Geneva on or about 1 December 1967. It shall submit its report to the countries members of the Group of 77 not later than 15 January 1968.

PART THREE

A. FUTURE ACTIVITIES OF THE GROUP OF 77

The representatives of developing countries of the Group of 77 are firmly decided to maintain and further strengthen the unity and solidarity of the group of developing countries. They agree to maintain continuous consultations

and contacts in order to further that objective.

The Group of 77 should meet at the ministerial level as often as this may be deemed necessary, and in any case always prior to the

convening of sessions of the United Nations Conference on Trade and Development, in order to harmonize the positions of developing countries and to formulate joint programmes of action in all matters related to trade and development. It can also meet at any other level, as required by the needs of developing countries.

In all matters relating to the preparation for Ministerial Meetings of developing countries, and, during the intervals between these Ministerial Meetings, and for the formulation of joint positions on issues within the purview of UNCTAD, the competent authority of the Group of 77 is the Group of 31 developing countries. This Group of 31 is composed of the developing countries, members of the Trade and Development Board, and should normally meet concurrently with the Trade and Development

Board. For all matters related to their specific fields of activities the developing countries members of the Committee of the Board are fully competent.

The Co-ordinating Committee of the Group of 77 as established in Geneva in October 1966, should be continued until the New Delhi Conference with the following terms of reference:

(a) To assist in making appropriate arrangements for visits of goodwill missions;

(b) To transmit to Member Governments of the Group of 77 the reports of the goodwill missions received from the President of the Ministerial Meeting;

(c) To undertake any other work that may be entrusted to it by the Group of 77 in Geneva.

Informal co-ordinating groups of the 77 should be established in all headquarters of the various United Nations specialized agencies.

B. GOODWILL MISSIONS

The representatives of developing countries participating in the Ministerial Meeting of the Group of 77 have decided to send high-level goodwill missions to countries belonging to other groupings of member countries of UNCTAD. These missions, entrusted with the task of informing and persuading, shall acquaint the respective governments of the countries to be visited of the conclusions of the Meeting so as to contribute to the creation of the best possible conditions for negotiations on the programme of action of UNCTAD II.

There will be six high-level goodwill missions to visit capitals of developed and socialist countries, composed of a least one, and if possible, two special envoys accredited by Heads of States from each of the three regional groups within the Group of 77. Each mission will be headed by one of its members so as to ensure that each regional group provides two mission leaders.

Necessary steps will be taken immediately to contact the respective Governments to fix suitable

dates for the visits of the missions in such a way as to ensure the completion of all visits before the end of November of 1967.

Each mission will submit its report to the President of the Ministerial Meeting who, in his turn, in co-operation with the Co-ordinating Committee, will forward these reports to all the developing countries members of the Group of 77 as soon as possible.

The President of the Ministerial Meeting of the Group of 77 was requested to present the Charter of Algiers to the General Assembly of the United Nations and to the Secretary-General of the United Nations. The President of the Ministerial Meeting, in his turn, invited the Rapporteur General of the Ministerial Meeting and the Chairman of the four main Committees of the Meeting to accompany him on this mission. He also invited the Vice-President of the Ministerial Meeting to accompany him if their duties permit them to do so.

RECENT ECLA ACTIVITIES

I

Meeting on the problems of regional integration of the economically relatively less developed countries

(Guatemala City, 23-28 October 1967)

In compliance with resolution 254 (XI), adopted at its eleventh session, ECLA convened a meeting of government representatives of the relatively less developed countries to evaluate the findings of its preliminary study entitled "The economically relatively less developed countries and Latin American integration" (E/CN.12/774 and Add.1-2).

The meeting was attended by representatives of Bolivia, Costa Rica, the Dominican Republic, Ecuador, El Salvador, Guatemala, Honduras, Jamaica, Nicaragua, Panama, Paraguay, Trinidad and Tobago, Uruguay, and British Honduras (Belize) in its capacity as an associate member of the Commission. The following international and regional organizations also sent representatives: the Permanent Secretariat of the General Treaty on Central American Economic Integration, the Latin American Free-Trade Association, the Organization of American States, the Inter-American Committee on the Alliance for Progress, the Inter-American Development Bank, the Institute for Latin American Integration, the Food and Agriculture Organization of the United Nations, the Latin American Institute for Economic and Social Planning, the International Labour Organisation, the Inter-American Institute of Agricultural Sciences of the Organization of American States, the Organization of Central American States, the Central American Bank for Economic Integration, the Central American Research Institute for Industry, the Central American Institute of Public Administration and the Central American Monetary Council.

This was the first time that the economically relatively less developed Latin American countries had met to exchange views and discuss various problems relating to their participation in the Latin American economic integration movement.

As a result of its proceedings, the Meeting adopted several decisions relating to bases for

co-ordinating action by the relatively less developed countries, trade policy, sectoral agreements, establishment and development of an air transport and shipping network, economic co-operation between the countries of the Caribbean Basin, external financing, technical assistance, establishment of a regional centre for the development of small-scale industry, and foreign trade.

With regard to the first of these topics, the Meeting recommended to the Governments of the countries concerned that they should strive to reconcile their national interests with a view to increasing their participation in the Latin American integration process and strengthening their bargaining position on all matters relating to international trade and external financing. To that end they should establish permanent machinery for consultation among their countries. They should also encourage co-ordination of activities and exchange of information among national and regional financial institutions and among research centres and agencies representing the private sector. To ensure that national development plans took full advantage of the opportunities afforded by regional co-operation, it was recommended that the Governments should sponsor a technical meeting of heads of planning offices and directors of national integration agencies.

In the same context, the Meeting decided to request the technical units of integration agencies to assist in the attainment of the objectives indicated and to co-operate with those economically relatively less developed countries which decided to form free trade zones or economic integration areas.

In relation to trade policy, the Meeting reaffirmed the fundamental concept that products of the economically relatively less developed countries should have access to the Latin American market on a preferential and priority basis,

and that the opening of their own markets to the other countries should be carried out gradually and over a longer period. The following principles defining the position of the less developed countries on trade policy questions were also adopted: that while the Latin American common market was in process of formation, the relatively less developed countries might grant one another trade advantages which did not extend to the other Latin American countries; that they should conclude with one another or with more developed countries industrial integration and complementarity agreements, or sub-regional agreements for accelerating economic integration, and that the concessions made by virtue of those agreements should not be applicable to the relatively more developed countries; that preferential régimes should be established for the relatively less developed countries in the process of harmonization of external tariffs and in the treatment of imports of capital goods and essential inputs; and that, in accordance with the foregoing principles, the countries at more advanced stages of development should recognize that their relations with the less developed countries should be based on weighted reciprocity which took into account the structure and economic potential of the latter.

The Meeting further decided to request the ECLA secretariat, in co-operation and co-ordination with regional and international agencies, to carry out studies and suggest ways and means of securing compliance with the principles set forth above. The studies should deal, *inter alia*, with the following questions: the liberalization of trade with preferential treatment for the relatively less developed countries; the granting of trade advantages to the relatively less developed countries which should not extend to the other Latin American countries; and tariff equalization, with a view to facilitating its acceptance by the relatively less developed countries. They should include the preparation and up-dating of a table of tariff, exchange and other restrictions on trade between the Latin American countries; the preparation of a report on bilateral and multilateral agreements to which the economically relatively less developed countries of the region were parties; the evaluation of the probable effects of the opening of markets for the less developed countries of the region; and a survey of the supply of capital goods and industrial inputs essential to Latin America.

The Meeting stressed the need for the relatively less developed countries to participate

in the formulation of regional policy governing sectoral agreements, and in the actual preparation of the relevant studies. The participants likewise expressed their concern that all the relatively less developed countries should participate in the formulation, elaboration and conclusion of sectoral agreements within the region, so that their views could be duly considered, as well as their prospects of participating in activities deriving from the establishment of the Latin American common market. In addition, the Meeting reached the following two decisions: to request the ECLA secretariat, in co-operation with FAO and other specialized agencies, to continue to examine the possibilities of concluding sectoral agreements in respect of agriculture and to work out alternative ways in which the various relatively less developed countries might participate; and to urge the United Nations Development Programme and other international agencies to press forward in their research on specific natural resources found in the relatively less developed countries, so that their exploitation might be undertaken for the purposes of regional projects.

In connexion with economic co-operation between the countries of the Caribbean basin, the Meeting decided to request the ECLA secretariat, in consultation and co-operation with the Central American Common Market and the other Governments concerned, to undertake a study of the possibilities of establishing increasingly close co-operation between the countries of the Caribbean Basin; and to convene, in due course and after consultation with the governments concerned, a meeting to consider the study in question and reach decisions on the findings and proposals it contained. Another decision adopted was to request the Inter-American Development Bank, the secretariat of the United Nations Conference on Trade and Development and the United Nations Development Programme to provide technical and financial assistance for the project.

With reference to external financing, the Meeting recommended to the international and regional financing agencies that in defining their financial assistance policies and programmes they should devote special attention to the economically relatively less developed countries of Latin America and should grant them preferential treatment. Additional resources should be allocated to those countries to meet the new financial needs arising from any integration programmes in which they participated, without prejudice to such resources as might be assigned to them for purposes of implementing their national development plans. In the allocation

of those resources, priority should be given to investment projects related to integration, particularly in the following fields: infrastructure; the establishment of new industries and the modernization of those already existing; the expansion of agricultural production and yields; and the promotion of exports. Steps should be taken to make procedures for the granting of credits more flexible, and to reduce requirements that slowed up the formalities. As part of the preferential treatment, longer repayment and grace periods and lower rates of interest should be granted to the economically relatively less developed countries of Latin America; larger proportions should be allocated for the financing of local costs; specific funds should be assigned to national and sub-regional institutions to be administered as investment trusts; guarantee certificates or vouchers for securities issued by governments or their development agencies should be authorized, in order to facilitate their sale on international capital markets; and technical personnel from the less developed countries should be given an opportunity to join the staff of such institutions. The Pre-Investment Fund of the Inter-American Development Bank and the Integration Fund administered by the Central American Bank for Economic Integration, among others, should be strengthened to enable them to finance feasibility studies for industrial, agricultural and infrastructure projects in the economically relatively less developed countries.

In the same connexion, the Meeting suggested that the governments of the economically relatively less developed countries should consider the possibility of establishing a "compensation fund" to offset possible reductions in fiscal revenue, and that, for that purpose, the Co-ordinating Commission of the Latin American Free-Trade Association and the Central American Common Market should be asked to prepare, with the participation of countries belonging to neither of those integration systems, a first draft for the project in question.

With respect to technical assistance, the Meeting recommended to international and regional technical assistance agencies that in formulating and establishing their programmes they should grant priority to the relatively less developed countries, and that they should give special attention to the needs of those countries in the following respects: the identification of activities of special interest to the relatively less developed countries with a view to supplying the regional market; the establishment or improve-

ment of export promotion procedures and mechanism; the modernization of enterprises or activities which might be affected by integration, and the improvement of their efficiency; advisory assistance to entrepreneurs and training of skilled labour; the training of a group of top-level professionals to act as leaders in negotiations with other countries, and the establishment of the necessary training centres. It was also decided to recommend to international agencies that they should establish and step up programmes for direct technical assistance, research, and training of public officials, in order to improve and modernize the public administration in the relatively less developed countries and increase its efficiency, and that they should consider the possibility of inter-institutional co-operation for that purpose. Emphasis was laid on the urgent need to formulate, with the co-operation of international agencies, particularly the United Nations Development Programme, intensive programmes for evaluating water, forest, mining, fisheries, agricultural, and tourism resources in the relatively less developed countries, in order to promote the establishment of new industries and diversify the sources of employment. For the purposes indicated, the Meeting advocated an increase in the resources allocated by the Pre-Investment Fund of the Inter-American Development Bank and by the United Nations Development Programme (Special Fund) for financing studies which were of special interest to the economically relatively less developed countries and which would further the regional integration process.

With regard to the establishment of a regional centre for the development of small-scale industry, the Meeting decided to request ECLA and the United Nations Industrial Development Organization to prepare a project and present it to the United Nations Development Programme, and to enlist the co-operation of international and regional agencies, and of the industrialized countries concerned, in the prompt execution of the project in question. It was recommended that the centre should have its headquarters in Quito and should work in close co-operation with the Central American Research Institute for Industry, so that the latter agency might broaden its field of activity and serve the Central American and Caribbean countries and other countries wishing to be associated with the Institute.

In the field of foreign trade, the Meeting decided to recommend to the economically relatively less developed countries of Latin America that they should join with the other countries

of the region in concerted action to remove the obstacles restricting the possibilities of selling the Latin American countries' traditional exports on world markets. It urged them to associate themselves with the other countries of the

region in efforts to ensure that the export quotas established in international commodity agreements were raised to a level that would facilitate the more rapid economic and social development of Latin America.

II

Working group on national accounts

(Santiago, Chile, 30 October to 10 November 1967)

This second meeting of the Working Group was sponsored jointly by ECLA and the Statistical Office of the United Nations. Participants from Argentina, Bolivia, Chile, Colombia, Ecuador, Guatemala, Mexico, Trinidad and Tobago and Venezuela attended the meeting. Representatives of the Latin American Institute for Economic and Social Planning (ILPES) and the Development Centre of the Organisation for Economic Co-operation and Development (OECD) also participated and the Inter-American Statistical Institute (IASI), the Universidad de Chile and the Universidad de Concepción sent observers.

The Group met to consider recent progress in the revision and extension of the United Nations System of National Accounts (SNA), and subsequently presented its conclusions to the United Nations Expert Group which met in Paris in November 1967 and to the fifteenth session of the Statistical Commission, held in New York in February 1968.

Three main topics were discussed: the revised system of national accounts and its adaptation to Latin America, sources of data and techniques for compiling national accounts in Latin America, and other business.

Under the first heading, the Working Group discussed the purposes, uses and structure of the proposed new system, including input-output tables. The new system includes three types of accounts: the number I accounts are the consolidated accounts for the nation; the number II accounts refer to production, consumption expenditure and capital formation; and the number III accounts take care of financial transactions, and include income and outlay and capital finance accounts. The new system contains, in addition, two other types of tables, namely, supporting and supplementary tables. The supporting tables provide more detailed breakdown of the categories included in the accounts; the supplementary tables are meant to accommodate information which cannot be derived from the

main accounts but which is still considered important enough for some purposes to be included in the system. The adaptation of the system to developing countries includes a number of accounts and tables which cannot be derived from the matrix, such as illustrative accounts for areas, for key segments and for the public sector, and tables for the supply and use of commodities where transactions are valued at market prices rather than at basic values as in the main system.

The Group considered that the layout of the new system was adequate for the presentation of data and for socio-economic analysis, since it provided a more complete basis than the existing one.

Other topics discussed included questions related to definitions and classifications, standard accounts and tables, priorities and estimates at constant prices. The discussions on definitions and classifications centred on the concept of production limits, treatment of the real estate industry, income distribution, problems relating to the analysis of the labour force and to information on capital and depreciation, capital formation, production and capital formation accounts by institutional sectors, administrative and similar expenditure, classification of economic activities, classification by institutional sectors, indirect import taxes, classification of direct taxes and current transfers by households, balance of payments, treatment of bank services, used goods, and capital finance accounts. The discussions on standards accounts and tables centred on the accounts and tables proposed for the adaptation of the full system to the developing countries. The principal change introduced in the priorities presented in document E/CN.3/356, "Proposals for the revision of the SNA, 1952" consists in the assignment of a higher priority to the tables at constant prices, in view of their importance for the Latin American countries in particular and for economic analysis in general. As regards estimates at

constant prices, the Group agreed that the inclusion of a chapter on constant prices in the revised SNA constituted an advance. It felt, however, that very little progress had been made during the last few years in developing principles of deflation which go beyond the items on the production account. This meeting of the Group, like the 1965 meeting was very much concerned with the problems and possibilities of deflating income flows, in particular the direct deflation of the foreign balance. It was recognized that, except in so far as the deflation of compensation of employees and the foreign balance are concerned, little practical experience is available in the field of deflating income flows. In view of the importance of the subject for countries with inflationary problems, however, the Group felt that the matter required intensive and thorough study. In this connexion, the Working Group strongly recommended that the United Nations continue work on the problems of estimating national accounts at constant prices, and that an effort should be made to solve the problems of deflating income flows for different purposes, explicitly defining the concepts involved in each case.

With regard to sources of data and techniques for compiling national accounts in Latin America, the practical difficulties encountered in

preparing estimates were discussed in detail, with emphasis on those relating to agriculture and services. Views were exchanged on the methods used to fill the gaps in basic statistics in respect of construction and improvements undertaken by agricultural producers on their own account, and with regard to estimates of inventories of agricultural and livestock products held by both producers and middlemen. The discussion also touched upon the procedures adopted to define prices at the producer level, for which basic data are non-existent in most countries of the region. Detailed descriptions were also given of the methods applied in preparing service estimates, at both current and constant prices, special attention being devoted to the problems deriving from the use of occupied-population figures as basic data for such estimates. The Group discussed the possibility of adopting methods based on the analysis of tax data and other administrative records, and the results obtained by means of *ad hoc* surveys on some specific services were also described.

Lastly, the ECLA secretariat was requested to institute a system for the regular exchange of information and views among national accounts experts in Latin America.

III

Meeting of government experts of the developing countries members of the Commission

(Santiago, Chile, 11-15 December 1967)

This meeting was called by ECLA in compliance with its resolution 264 (XII) on Latin America and the second session of the United Nations Conference on Trade and Development. Under the terms of this resolution the ECLA secretariat was requested to revise and update its report on Latin America and international trade policy (E/CN.12/773), which was a provisional version of the study prepared for the second UNCTAD session. Once this had been done, the secretariat was further requested to convene a meeting of government experts to review the document before submission to the second UNCTAD session.

The meeting was attended by experts accredited by the Governments of Argentina, Brazil, Chile, Colombia, Costa Rica, the Dominican Republic, Ecuador, Guatemala, Haiti, Honduras,

Mexico, Panama, Peru, Trinidad and Tobago, Uruguay and Venezuela.

The debate centred on the recent evolution and the trends of Latin America's foreign trade, the broad lines of international trade policy—the trade policies of the major centres in relation to Latin America, the fulfilment by the developed countries of trade commitments entered into with the developing countries and Latin America in particular, problems deriving from the application of certain escape clauses and possible solutions, the results of the Kennedy Round from the standpoint of Latin America, possible formulas and machinery for future action—and Latin America's position at the second UNCTAD session. On the last point, a discussion took place on the aims of the second UNCTAD session, commodity trade

problems and policies, the expansion and diversification of exports of manufactures and semi-manufactures from the developing countries, trade and development financing, shipping, the expansion of trade, and economic integration, among the developing countries, special measures in favour of the relatively less developed

countries, and the growth of trade with the centrally planned economies.

The secretariat took note of the comments made at the meeting, and included them whenever possible in the revised version of the document entitled "Latin America and the second session of UNCTAD" (E/CN.12/803).

IV

Regional inter-agency meeting on community development

(Santiago, Chile, 23-25 January 1968)

This meeting was held under the auspices of ECLA and in compliance with a recommendation of the United Nations Administrative Committee on Co-ordination. It was attended by officials from the following agencies: the Andean Indian Programme, the Inter-American Development Bank, the Venezuelan Centre for Training and Applied Research in Community Development (Centro Venezolano de Entrenamiento e Investigación Aplicada en Desarrollo de la Comunidad), the United Nations Children's Fund, the Chilean Institute for Training and Research in Agrarian Reform (Instituto Chileno de Capacitación e Investigación de la Reforma Agraria), the Organization of American States, the Food and Agriculture Organization of the United Nations, the World Food Programme, the United Nations Educational, Scientific and Cultural Organization, the International Labour Organisation, the World Health Organization and the Pan American Sanitary Bureau, and the Latin American Institute for Economic and Social Planning.

The following were the three major items on the agenda: policy issues in community development and co-ordinated action of international organizations; integral regional development as a basis for local and community programmes; and professional training for regional and local development in Latin America.

The object of the meeting was to promote a free exchange of ideas, but not to formulate recommendations which would represent commitments for agencies or participants.

Attention was drawn to the international agencies' interest in elucidating and defining community development concepts, techniques and objectives. The discussion showed that the experts present were more concerned with the problems of introducing appropriate techniques

for the planning, co-ordination and administration of development programmes at the local level, viewed as a broad category, than in the question of clarifying the meaning and future role of community development. It did not appear that Latin America was approaching a unified doctrine in this policy area; but the continuing search for functional mechanisms to stimulate the development of communities, areas and internal regions was producing a body of theories and techniques with common elements in the different sectors, whose application coincided with the widening use of the term "community development". The very fact that governments were increasingly disposed to support such a policy highlighted the fundamental obstacles to its implementation. In addition to the difficulties of formulating administrative mechanisms for the co-ordination of health, educational, agricultural and land reform agencies, public works, social services, etc., action at the local level involved another serious problem: how local government institutions could be systematically drawn into the processes of decision-making and programme implementation.

In the context of regional as against local development, it was pointed out that a nation was the sum of its regional and local areas, whose special features determined the possibilities of absorbing investment and obtaining differential responses to development problems. Integral regional development was a means of linking national and local planning. In so far as the technical agencies concentrated their attention on planning and plan implementation by areas or regions, problems of inter-sectoral co-ordination could be more effectively solved through comprehensive programmes at the regional and local levels than by centralized mechanisms at the national level.

With regard to international professional training, the view was expressed that training programmes should be primarily directed towards the break-down, localization and implementation of development policies and programmes. Regional and local planning theory and practice should focus on methods capable of capturing local aspirations and feeding them back into the plans. Training should foster a new attitude among technical personnel and officials at both the high and the intermediate level which would enable them to use national policies and programmes as frames of reference

for their work, and to incorporate organized popular participation in all aspects of the plan implementation process. Planning was a joint responsibility which required the collaboration of the operational and administrative agencies with the planners. In order to achieve such integration, the training programme should include comprehensive knowledge of the development process and the dynamics of social and institutional change understood as a total process; a broad command of planning techniques; and an ability to utilize the techniques of public administration.

V

Report of the Seminar on Administrative Aspects of Plan Implementation

(Santiago, Chile, 19-27 February 1968)

This Seminar was organized by the United Nations through the Economic Commission for Latin America, the Latin American Institute for Economic and Social Planning, and the Public Administration Division and Office of Technical Co-operation at Headquarters. It was attended by participants from Bolivia, Brazil, Chile, Colombia, Costa Rica, Cuba, the Dominican Republic, Ecuador, Guayana, Haiti, Honduras, Jamaica, Mexico, Nicaragua, Panama, Paraguay, Peru, Trinidad and Tobago, Uruguay and Venezuela. Also present were observers from technical institutions in Argentina, Brazil, Chile, Cuba, Peru and Venezuela, and from the following international organizations: the International Labour Organisation, the Food and Agriculture Organization of the United Nations, the United Nations Educational, Scientific and Cultural Organization, the World Health Organization, the United Nations Children's Fund, the United Nations Development Programme, the Organization of American States, the Ford Foundation and the Latin American Faculty of Social Sciences.

The purpose of the meeting was to examine the question of assigning authority and responsibility for development planning and the relations between planning agencies at all levels and the centres whose policy decisions influence planning; to formulate recommendations for greater participation of decision-making centres in the planning process; to analyse administrative planning systems in Latin America and seek ways of enhancing administrative capacity to implement development plans and programmes;

to examine the administrative organization and procedures for short-term activities within the framework of medium- and long-term plans; to indicate whether there are annual operational plans for the whole economy and whether programme budgeting is being used for the public sector, and to provide the necessary guidelines for making annual operational plans and programme budgeting effective instruments of plan implementation; to discuss the administrative requirements for the formulation and execution of annual operational plans and programme budgeting; to suggest administrative schemes for supervising and evaluating the progress of plans and for adapting them in order to ensure their efficient implementation; and to determine whether the established organization and procedures permit continuing supervision of plan implementation at the global, sectoral, regional and local levels.

The discussions centred on four main items: plan formulation and implementation machinery; administrative planning as an integral part of the planning process; conversion of the plan into operational programmes; and control, evaluation and adaptation of operational plans, programmes and projects.

With regard to the first item, the Seminar discussed general planning machinery and its relationship with decision-making centres in respect of general development policy, short-term economic and social policy, public investment and the private sector; and sectoral planning machinery and how it is linked with

decision-making centres (with emphasis on agriculture and industry): agencies for sectoral policy formulation and implementation at the central government level; centres for nationwide decision-making concerned with development, credit, prices, government purchasing, technical assistance and other measures which influence the development of particular sectors; autonomous or decentralized bodies and specialized public (or semi-public) enterprises in a particular sector; and the role of regional and local agencies and the private sector in the formulation and implementation of sectoral plans.

The discussion of the second item centred on the organization, methods and content of administrative planning at all levels; and methods of evaluating and improving administrative capacity to formulate, discuss, approve, execute, supervise and evaluate global, sectoral and re-

gional development plans, and also programmes and projects.

The main points discussed under the third item were: administrative questions involved in converting the long-term plan into annual operational plans and medium-term investment plans, including ways of integrating the planning and budgeting processes; and projects as components of plans and as units for plan implementation.

Lastly, with regard to the fourth item the Seminar discussed administrative systems established to control the execution of plans, programmes and projects at the global, sectoral, regional and local levels; and organizational systems and procedures for collecting information for the periodic evaluation of plan implementation, analysing the gaps between targets and results, and suggesting specific measures for adjusting projects, programmes and plans.

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The Economic Bulletin for Latin America has been published by the secretariat of the Economic Commission for Latin America twice yearly since 1956. The essential purpose of this periodical is to provide a résumé of the economic situation of the region designed to supplement and bring up to date the information published in the Commission's annual economic surveys. Apart from this summary, which is to appear in every issue, special articles on different subjects related to the economy of Latin America are included, as well as informative and methodological notes.

The ECLA secretariat assumes entire responsibility for the *Bulletin*. Its content—intended for the information both of public officials and of the general reader—was not submitted to the Commission's member Governments before publication.

Since October 1958 the *Bulletin* has regularly included a Statistical Supplement. This subsequently became large enough to warrant separate publication, one issue being published in 1960, another in 1961 and two in 1962, each being bilingual with the corresponding table of contents. Since 1964, a new publication, the *Statistical Bulletin for Latin America*, has been issued twice a year, to provide the public with a regular flow of statistical data on economic matters.

EXPLANATION OF SYMBOLS

Three dots (...) indicate that data are not available or are not separately reported.

A dash (—) indicates that the amount is nil or negligible.

A minus sign (—300) indicates a deficit or a decrease.

A stroke (/) indicates a crop year or a fiscal year, e.g., 1954/55.

An asterisk (*) is used to indicate partially or totally estimated figures.

“Tons” and “dollars” are metric tons and United States dollars, respectively, unless otherwise stated.

Minor discrepancies in totals and percentages are due to rounding.

TWENTIETH ANNIVERSARY OF ECLA

The Economic Commission for Latin America was established on 25 February 1948 by virtue of a resolution of the United Nations Economic and Social Council.

this concept into account in framing economic policy at that time.

There is no need to analyse this trend of thought here. Suffice it to say it has spread throughout the region and that ECLA is now at the end of a fruitful stage and is now facing the beginning of another stage by formulating a strategy for tackling the major problems of under-development. This in fact is formulating the broad lines of an economic policy to achieve that purpose.

The member Governments of the Commission recognized this at the last session of the Commission of the Whole when they unanimously adopted the following declaration:

DECLARATION

MEMORATING THE TWENTIETH ANNIVERSARY OF THE ECONOMIC COMMISSION FOR LATIN AMERICA

On the occasion of the twentieth anniversary of the establishment of the United Nations Economic Commission for Latin America, the representatives of the member Governments,

recognizing that the activities of the Commission have represented an important contribution to Latin America's economic and social development process,

and, in particular, its work in connexion with the systematic analysis of the economic situation, promotion of integration and planning machinery, and concerted action to secure international economic co-operation,

and considering that the secretariat of the Commission, with the collaboration of the Latin American Institute for Economic and Social Studies, has expended intensive effort in training technical personnel in the fields of economic development and planning, evaluating economic, technical and statistical data, and disseminating relevant publications,

and

Declare:

1. The intention of their Governments to continue, through the Economic Commission for Latin America, their efforts to speed up

On the back of the title page and on the last page of the text, the price should read:

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(or equivalent in other currencies)

... trend of thought which was attuned to the real economic circumstances in Latin America. Up to then with only a few exceptions—these circumstances had been ignored or under-estimated in the economic policy adopted to solve economic development problems. Latin America had no clear conception of economic development, if indeed it could be said to have taken

the economic and social development of the region, with a view to increasing the material and spiritual well-being of the Latin American peoples, forging closer economic links between the Latin American countries and between them and the other nations of the world, and thus helping to strengthen the regional economic

integration process and to buttress international co-operation; and

2. Their appreciation of the valuable technical contribution made by the secretariat of the Economic Commission for Latin America to the development of the Latin American countries.

INVESTMENT IN THE PETROLEUM INDUSTRY IN LATIN AMERICA

I. GENERAL REMARKS

Capital requirements in the petroleum sector are extremely high and in any development programme estimation of the amount of investment required, the time schedule for the investment in the successive stages and the methods of financing are all of primary importance.

There is a strong element of chance in both the exploration and actual production of petroleum, particularly in the former stage. They are subject to mining risks, which are absent from the refining, transport and marketing stages.

Consequently, it would be useful to isolate the investment requirements of each separate stage. It is clearly very difficult to do this, in view of the nature of the figures for the different Latin American countries. Only in very few cases are there long, differentiated and accurate series available. In addition, the variety and complexity of physical and monetary conditions in the different countries also make it more difficult to arrive at valid conclusions.

The first step is to eliminate the application of average world coefficients, which in addition rarely single out the exploration stage proper. Even leaving aside such special areas as the United States and the Middle East, the remaining figures—whose geographical coverage is very small—would be of very doubtful value. Information on Latin America as a whole is similarly unrepresentative, since for a variety of factors, the dominance of Venezuela obscures that of the other countries, taken individually and as a whole.

However, for the purposes of illustration some figures can be cited to indicate orders of magnitude.

Authoritative sources¹ estimate that, with large variations from one geographical region to another, between 1965 and 1980 average world investment per ton of daily production capacity is likely to be about 90 dollars, which represents a decline in relation to past invest-

ment. Of this total, about 40 dollars would go on exploration and production, with between 15 and 20 dollars for each of the three subsequent stages.

By 1965 world investment was about 120 dollars per ton of daily capacity, excluding the United States, where it was about 325 dollars² (see table 1).

Table 1
STRUCTURE OF INVESTMENT IN PETROLEUM
(Percentages)

	1956-65		Cumulative investment up to 1962	
	United States	Rest of world	United States	Rest of world
Production	71	37	61	31
Refining	10	17	14	14
Transport	6	25	8	26
Marketing	8	16	11	11
Petrochemicals and other acti- vities	5	5	6	5

The stage which has required most investment in the past—at least in Latin America—is production, including exploratory and development activities. The most chancy element is undoubtedly the exploration of potential oil-producing zones. Success depends on factors that cannot be correlated without data that are only available from the petroleum companies, although there is a relatively large amount of information on both stages, expressed in terms of crew-months, hectares explored, kind of terrain, wells drilled, etc.

Unfortunately, the data on reserves, which are based on different criteria, introduce imperfections into the calculation of unit investment for proving reserves. It can be stated, however, that they vary greatly from one country to another in Latin America. There is reason to believe that unit investment would

¹ *Petroleum Press Service*, vol. XXXII, No. 3 (March 1965), p. 82.

² Organisation for Economic Co-operation and Development, *Oil Today* (1964), pp. 76 et seq.

not be more than 10 dollar cents a barrel in Venezuela, but about 20 dollar cents in Mexico and as much as 60 dollar cents in Brazil.

The investment required to develop an oilfield and keep it in production is likely to be much the same as the investment that was needed for similar proved structures. Consequently, here is another source of information whose usefulness should not be ignored.

The limitations referred to above do not apply to the remaining stages. Fairly precise information is available on the cost of recently constructed refineries or refineries under construction or up for tender in almost all the Latin American countries, and on their technical characteristics; there is, in addition, a considerable amount of international information, which can be adjusted to apply to individual cases. The same is true with regard to means of transport, particularly pipelines of specific diameters and lengths, with indications of the kind of terrain, characteristics of the fluid, etc. It is also a simple matter to calculate the investment required for internal distribution.

Investment costs could also be calculated on the basis of the main physical data and the unit costs of the component elements. Once again, this is quite a simple and precise procedure for refining, transport, storage and marketing, but less so for the actual production stage.

For production the determining element is the drilling and installation of the well. Where, as is often the case with known deposits or deposits whose behaviour is predictable, an estimate can be made of the number of wells and the average depth needed to ensure a certain volume of production, it is possible to estimate the investment required for drilling. The cost of additional equipment over and above the basic investment can then be derived quite easily from it.

In Latin America, these data are available for certain countries and certain periods, and could be improved. A correlation with terrain difficulties, geological formations, depths and current techniques would help to establish more closely the likely cost per metre drilled.

As a guide, the average cost of drilling in the United States ranges from 100 dollars a metre for offshore drilling (continental shelf up to a depth of 3,000 metres) to an average of 40 dollars a metre for inland petroleum wells and 50 dollars a metre for natural gas.³

³ *Oil and Gas Journal* (Tulsa, Oklahoma, 15 November 1965), p. 127.

For different depths, the figures are:

From 500 to 1,200 metres—30 dollars a metre
 1,200 to 2,200 metres—35 dollars a metre
 2,200 to 3,000 metres—45 dollars a metre

It is well known that exploration wells cost much more. Depending on the circumstances, they may cost as much as 1 million dollars or more.

Good data are available for Venezuela in this regard (see table 2) for the five-year period 1960-65.⁴ For previous years the figures fluctuate greatly, being generally lower for development wells and equal or higher for exploration wells.⁵

Table 2
 VENEZUELA: AVERAGE COST PER METRE
 DRILLED, 1961-65
 (Dollars)

	Exploration	Production
From 1,000 to 2,500 metres	60	70
Over, 2,500 metres	150	100

The costs vary greatly from one oilfield to another, being several times higher in Maracaibo (the main producing region) than in Barcelona.

2. LATIN AMERICA'S SHARE IN WORLD INVESTMENT

Tables 3 and 4 show the distribution of cumulative petroleum investment in the main producing and consuming areas of the world.⁶ It can be seen that, even though its share in the world total is declining, the United States still absorbs about 50 per cent of existing capital in the petroleum industry of the western world.

⁴ Venezuelan Ministry of Mines and Hydrocarbons, *Petróleo y otros datos estadísticos* (October 1967).

⁵ Higher costs are recorded for 1959 and 1960 in all cases.

⁶ This study is concerned with investment and the use of capital for the expansion, modernization and renovation of property, plants and equipment used by the industry in its different activities (production, transport, refining and marketing). New investment is the amount spent annually to cover these needs. Gross investment is the cumulative result of new investment. The figure for net investment or net fixed assets is obtained by deducting from gross investment the sum of the items measuring capital depreciation. These include the annual entries relating to the depreciation and amortization of property, plants and equipment and the depletion of proved reserves.

Table 3
WORLD DISTRIBUTION OF NET PETROLEUM INVESTMENT IN FIXED ASSETS,
1946-65

(Percentages of total)

	1946	1955	1961	1965
United States	70.0	62.0	49.6	48.3
Canada	1.4	5.0	6.2	6.2
Latin America	10.3	8.2	11.2	9.1
Venezuela	4.9	4.4	5.1	3.1
Other countries of the western hemisphere	5.4	3.8	6.1	6.0
Western Europe	5.1	7.2	11.2	13.3
Africa	1.0	0.9	3.5	3.9
Middle East	4.3	4.8	4.2	3.5
Far East	2.5	3.5	4.3	5.5
International investment in tankers	5.4	8.4	9.8	10.2
TOTAL (millions of dollars)	12,150	33,725	61,250	78,200

SOURCES: Chase Manhattan Bank, *Investment Patterns in the World Petroleum Industry* (December 1956); *Capital Investments of the World Petroleum Industry*, November 1962 and various other issues.

It is also apparent that Latin America's share in cumulative net investment was smaller in 1965 than in 1961, and even smaller than in 1946. This is partly because of the relatively minor importance of Latin America as a petroleum producing region, and because investment in recent years has been channelled mainly towards the new producing areas in the Middle

East and North Africa and towards the large consumer centres in Western Europe.

Latin America's share in the world total, excluding the United States, dropped from 34.2 per cent in 1946 to 18.6 per cent in 1965. This decline was largely due to Venezuela, the main Latin American producer, whose share in 1965 was smaller than ever before. The share of the

Table 4
WORLD DISTRIBUTION OF GROSS PETROLEUM INVESTMENT IN FIXED ASSETS,
1946-65

(Percentages of total)

	1946	1955	1961	1965
United States	71.9	63.8	54.5	51.9
Canada	1.7	4.0	5.0	5.1
Latin America	9.8	9.3	11.2	10.2
Venezuela	4.7	5.4	5.5	4.5
Other countries of the western hemisphere	5.1	3.9	5.7	5.7
Western Europe	4.6	6.4	9.7	11.6
Africa	0.7	0.7	2.6	3.2
Middle East	3.7	4.3	4.0	3.7
Far East	2.2	3.1	4.0	5.0
International investment in tankers	5.4	8.4	9.0	9.3
TOTAL (millions of dollars)	24,600	63,300	111,750	144,375

SOURCES: Chase Manhattan Bank, *Investment Patterns in the World Petroleum Industry* (December 1956); *Capital Investments of the World Petroleum Industry*, November 1962 and various other issues.

rest of the Latin American countries as a whole rose from 5.4 to 6.1 per cent during the same period.

Venezuela's share in world net petroleum investment, excluding the United States, dropped from 16.4 per cent in 1946 to 6.7 per cent in 1965.

3. DISTRIBUTION OF INVESTMENT BY SECTORS

Tables 5 and 6 show the functional distribution of petroleum investment in Latin America, which is different from that of Venezuela alone (see tables 7 and 8).

The petroleum sector in the rest of Latin America has not suffered from the process of disinvestment that has affected the sector in Venezuela. However, production activities—which bear the greatest weight in the total—do

not receive the high percentages they do in Venezuela and a downward trend can be seen in the relative share of capital applied to production, despite the fact that gross and net cumulative investment in production absorbed more than 50 per cent of the total in 1964.

On the other hand, and once again in contrast with Venezuela, in the rest of Latin America there has been a steady increase in capital applied to marketing and refining activities, as a result of the growth of domestic consumption of petroleum products and of the boom in the refining industry.

4. INVESTMENT IN PRODUCTION

Table 9 shows new investment in exploration (including exploratory drilling) and production, by countries, in the period 1946-66.

Table 5

LATIN AMERICA: NEW INVESTMENT IN PROPERTY, INSTALLATIONS AND EQUIPMENT OF THE PETROLEUM INDUSTRY, 1946-66

Year	Production	Transport	Refining	Marketing	Other activities	Total (millions of dollars)
1946	77.3	3.0	12.1	6.1	1.5	330
1947	66.7	5.2	20.8	7.3	—	480
1948	64.5	8.1	21.8	4.8	0.8	620
1949	66.4	2.5	24.6	4.9	1.6	610
1950	62.7	3.4	23.7	8.5	1.7	295
1951	67.7	5.7	16.4	8.9	1.3	384
1952	71.0	6.0	13.0	9.0	1.0	500
1953	74.0	3.0	16.0	5.0	2.0	500
1954	67.3	3.7	21.5	6.6	0.9	535
1955	62.2	5.2	21.5	8.9	2.2	675
1956	71.3	4.1	17.6	6.6	0.4	1,220 ^a
1957	72.5	6.3	15.0	5.6	0.6	1,600 ^a
1958	64.0	12.4	12.0	8.8	2.8	1,250
1959	61.1	15.8	12.5	8.7	1.9	1,325
1960	59.2	13.7	14.6	10.4	2.1	1,200
1961	58.6	4.5	16.4	17.3	3.2	1,100
1962	65.4	6.7	12.3	12.3	3.3	895
1963	62.5	3.7	16.9	10.6	6.3	800
1964	54.8	3.2	27.8	12.8	1.9	775
1965	65.0	3.9	17.5	11.0	2.6	770
1966	48.0	6.4	33.1	9.2	3.3	920

SOURCES: Chase Manhattan Bank, *Investment Patterns in the World Petroleum Industry* (December 1956); *Capital Investments of the World Petroleum Industry*, November 1962 and various other issues.

^a Including rented concessions.

Table 6
LATIN AMERICA: STRUCTURE OF CUMULATIVE INVESTMENT IN THE PETROLEUM INDUSTRY, 1946-65

	<i>Gross cumulative investment</i>							<i>Net cumulative investment</i>						
	1946	1955	1962	1963	1964	1965	1966	1946	1955	1962	1963	1964	1965	1966
	<i>Millions of dollars</i>													
Production	1,770	3,540	7,950	8,195	8,405	8,655	8,860	890	1,425	3,725	3,650	3,685	3,700	3,625
Transport	105	320	1,015	1,040	1,080	1,105	1,185	60	190	585	575	565	565	600
Refining	370	1,380	2,425	2,580	2,760	2,880	2,890	205	740	1,340	1,460	1,560	1,370	1,565
Marketing	140	615	1,480	1,535	1,600	1,655	1,710	85	390	940	965	995	1,015	985
Other activities	15	35	255	275	280	265	275	10	30	210	225	220	195	195
TOTAL	2,400	5,890	13,125	13,625	14,125	14,580	14,920	1,250	2,775	6,800	6,875	7,025	6,845	6,970
	<i>Percentage distribution</i>													
Production	73.8	60.1	60.6	60.2	59.5	59.0	59.5	71.2	51.3	54.8	53.1	52.5	54.0	52.0
Transport	4.4	5.4	7.7	7.6	7.7	7.6	7.8	4.8	6.8	8.6	8.4	8.0	8.3	8.6
Refining	15.4	23.4	18.5	18.9	19.5	20.2	19.4	16.4	26.7	19.7	21.2	22.2	20.0	22.4
Marketing	5.8	10.5	11.3	11.3	11.3	11.4	11.5	6.8	14.1	13.8	14.0	14.2	14.8	14.2
Other activities	0.6	0.6	1.9	2.0	2.0	1.8	1.8	0.8	1.1	3.1	3.3	3.1	2.9	2.8

SOURCES: Chase Manhattan Bank, *Investment Patterns in the World Petroleum Industry* (December 1956); *Capital Investments of the World Petroleum Industry*, 1962, 1963, 1964 and 1965 issues.

Table 7
VENEZUELA: NET PETROLEUM INVESTMENT IN FIXED ASSETS, 1955-65
(Percentages of total)

	1955	1956	1957	1958	1959	1960	1961	1962	1963	1964	1965	1966
Production	85.1	67.2	66.1	64.3	70.4	75.5	82.6	76.4	79.1	77.0	87.0	78.9
Transport	4.3	10.4	15.0	21.5	12.5	13.0	4.6	11.2	10.2	6.5	4.0	10.3
Refining	7.0	20.1	14.7	9.7	9.7	5.1	5.8	5.3	3.9	10.0	3.5	6.0
Marketing	1.3	1.2	1.0	0.9	1.6	2.9	2.7	3.1	1.9	3.6	1.4	2.1
Other activities	2.3	1.1	3.2	3.6	5.8	3.5	4.3	4.0	4.9	2.9	3.2	2.7
TOTAL (millions of bolivares)	928	1,160	1,827	1,788	1,262	730	651	474	511	753	825	633

SOURCE: Ministry of Mines and Hydrocarbons, "Apéndice Estadístico", offprint from *Memoria correspondiente al ejercicio anual 1966* (March 1966 and October 1967).

Table 8
VENEZUELA: NET PETROLEUM INVESTMENT IN FIXED ASSETS, BY ACTIVITIES, 1955-65
(Millions of bolívares)

	1955	1956	1957	1958	1959	1960	1961	1962	1963	1964 ^a	1965 ^a	1966
Production ^b	69.4	72.5	74.2	72.2	72.6	72.6	72.6	72.5	71.5	71.5	72.9	71.6
Transport	8.3	7.5	8.0	10.3	10.3	10.6	10.6	11.0	12.3	13.0	12.5	13.2
Refining	16.4	14.9	13.1	12.6	11.6	11.3	11.0	10.7	10.0	9.9	8.9	8.8
Marketing	1.3	1.2	1.1	1.0	1.0	1.2	1.3	1.4	1.5	1.6	1.5	1.7
Other activities	4.6	3.9	3.6	3.9	4.5	4.3	4.5	4.4	4.7	4.2	4.2	4.7
TOTAL	5,649	7,023	9,002	9,652	10,375	9,771	9,140	8,505	8,086	7,778	7,553	7,039
Net investment as a percentage of gross investment	51.7	53.9	56.9	56.1	55.1	51.5	47.7	44.2	41.8	39.1	37.2	34.5

SOURCE: Ministry of Mines and Hydrocarbons, "Apéndice Estadístico", offprint from *Memoria correspondiente al ejercicio anual 1966* (March 1966 and October 1967).

^a Including payments for concessions.
^b Figures subject to revision.

Table 9
LATIN AMERICA: NET INVESTMENT IN EXPLORATION AND PRODUCTION, 1956-66
(Millions of dollars)

Country or region	1956	1957	1958	1959	1960	1961	1962	1963	1964	1965	1966
Argentina											
Exploration .....	...	...	...	...	...	...	...	...	...	...	...
Production .....	...	...	...	...	...	...	...	...	...	...	...
TOTAL .....	...	...	...	...	225	225	180	120	...	...	...
Bolivia											
TOTAL .....	...	...	...	...	10	6	7	7	...	...	...
Brazil											
Exploration	17	31	41	36	33	35	41	48	44	46	42
Production	9	16	12	8	12	15	15	14	16	19	24
TOTAL	26	47	53	44	45	50	56	62	60	65	66
Chile											
TOTAL .....	...	...	...	...	5	20	25	18	12	11	...
Colombia											
Exploration	15	16	12	20	...	...	...	...	...	...	...
Production	9	12	11	20	...	...	...	...	...	...	...
TOTAL	24	28	23	40	30	25	20	20	40	...	...
Ecuador											
TOTAL .....	...	...	...	...	15	4	1	1	...	...	...
Mexico											
Exploration	11	23	29	42	41	51	48	54	...	...	...
Production	6	13	17	24	59	49	33	31	...	...	...
TOTAL	17	36	46	66	100	100	81	85	...	...	...
Peru											
TOTAL .....	...	...	...	...	30	20	18	15	...	...	...
Trinidad											
TOTAL .....	...	...	...	...	30	31	35	30	...	...	...
Venezuela											
Exploration .....	...	...	...	117	59	30	36	30	43	...	...
Production .....	...	...	...	211	142	134	96	119	108	...	...
TOTAL	365	530	500	328	201	164	132	149	151	180	130
Latin America											
TOTAL	565	811	820	785	691	645	554	506	425	500	440
Latin America, excluding Venezuela											
TOTAL	200	281	320	457	490	481	422	358	274	315	310

SOURCES: Chase Manhattan Bank, *Capital Investments of the World Petroleum Industry*, various issues; Brazilian Ministry of Planning, *Petróleo* (Rio de Janeiro); Venezuelan Ministry of Mines and Hydrocarbons, *Petróleo y otros datos estadísticos* (Caracas); Pemex en cifras (Mexico); Nacional Financiera, S.A., *La economía mexicana en cifras, 1966*; ECLA/BTAO/FAO, "El petróleo en Colombia" (July 1961).

Unfortunately, these data are incomplete and, although it was possible to obtain fairly long series for countries with the highest levels of investment, except for Argentina, in all cases corrections and modifications had to be introduced in order to make the figures comparable. Where the necessary data were available, an evaluation was made of the breakdown of investment between exploration and development activities. In addition, for some years information was not available for all the countries, in which case the totals were taken from

the Chase Manhattan Bank publications and modified to take into account the larger investments estimated for Brazil.

To judge by the data thus obtained, the region's share in world new investment in exploration and production, excluding the United States and the socialist countries, dropped from 40 per cent in 1958 and 1959 to 36 per cent in 1960 and 28 per cent in 1963, and to an estimated 19.5 per cent in 1965.

This decline is mainly due to the downturn in investment in Venezuela, since the share

corresponding to the rest of Latin America as a whole rose from 11 per cent in 1956 to 26 per cent in 1961, dropping once again to 20 per cent in 1962 and 1963. The estimated share of these countries in 1965 was 23 per cent.⁷

Gross investment in Latin America per unit of production (corresponding to the cost of maintaining and expanding the production of crude) declined, with small fluctuations, from 3.5 dollars per cubic metre in 1956 to 2 dollars in 1963, if Venezuela—which has an average investment of 3.4 dollars—is included. Excluding Venezuela, average gross investment between 1956 and 1963 was 7.4 dollars per cubic metre, with a sizable drop in the last five years (see table 10).

The Latin American countries with an average annual investment of over 50 million dollars—Argentina, Brazil, Mexico and Venezuela—account for more than 80 per cent of total investment in the whole of Latin America.

If to these countries are added Colombia and Trinidad and Tobago, which maintain a steady level of annual investment, although under 50 million dollars, their share of the total would be more than 90 per cent.

Three countries—Argentina, Brazil and Mexico—account for about 75 per cent of total investment in the region, excluding Venezuela, in the years for which complete data are available. If Colombia and Trinidad and Tobago are

⁷ Calculated on the basis of data from the *Oil and Gas Journal*, 6 March 1967, p. 66.

added to these countries, the percentage rises to almost 90 per cent.

The share of capital expenditure on exploration (including exploratory drilling) in total investment in exploration and production is about 30 per cent for the group of countries for which the relevant data are available. The level is lower in Argentina, where it is about 15 per cent,⁸ and it is estimated to be between 40 and 50 per cent for Mexico.

Venezuela's share in the last few years has been between 20 and 25 per cent. In this country, capital expenditure on exploration and drilling has traditionally accounted for the bulk of investment in the production sector, although there is a tendency for it to weaken and for there to be a great increase in investment in secondary recovery. The share of the latter type of investment in total investment in production rose from 9 per cent in 1960 to 15 per cent in 1965, as a result of the acquisition of plants and equipment for on-the-site injection of gas, water and steam and for thermal combustion, which allow for a greater and more economical recovery of known petroleum resources. This type of investment has the same effect as investment in exploration and drilling, in that it increases the size of the proved reserves of crude. Of the three methods of increasing these reserves—discoveries, expansions and revisions—the lat-

⁸ This estimate takes into account the investment projections formulated by the National Development Council for the period 1965-80, which were based on an analysis of historical data.

Table 10
INVESTMENT IN PRODUCTION PER CUBIC METRE OF OUTPUT, 1956-66
(Dollars)

Year	Latin America	United States	Middle East	Venezuela	Latin America, excluding Venezuela
1956	3.5	12.2	1.0	2.9	5.4
1957	4.0	12.2	0.7	3.6	7.2
1958	4.2	10.8	1.7	3.6	7.4
1959	3.7	10.6	1.2	2.6	9.7
1960	3.1	10.1	0.9	1.5	9.2
1961	2.9	9.6	0.9	1.0	8.5
1962	2.2	10.7	0.8	0.7	6.8
1963	2.0	9.7	0.5	0.8	5.5
1964	1.8	10.8	0.5	0.9	7.5
1965	1.8	9.8	0.9	0.9	7.3
1966	1.6	9.4	0.6	0.7	6.1

SOURCE: ECLA, on the basis of data from the Chase Manhattan Bank.

ter has been the most important in Venezuela in the last five years, accounting for 70 per cent of the increase, and secondary-recovery techniques have played a key role (see table 11).

Table 11

VENEZUELA: NEW PETROLEUM RESERVES, 1955, 1958 AND 1960-66

Year	Total added in the year (millions of barrels)	Total added under the head of revisions (percentage of total)
1955	2,280	36.0
1958	2,140	2.0
1960	1,440	18.0
1961	540	13.0
1962	1,090	73.0
1963	1,390	73.5
1964	1,420	76.0
1965	1,320	74.0
1966	850	85.0

SOURCE: Venezuelan Ministry of Mines and Hydrocarbons, *Petróleo y otros datos estadísticos, 1966* (October 1967).

In Brazil, exploration represents on the average 70 per cent of the value of investment in production. Until recently, almost all the Brazilian production of crude came from the Reconcavo Baiano basin,⁹ but most of the investment in exploration in the last decade went on sedimentary basins that were not productive on a commercial scale (see table 8). On the average, this investment represented more than 75 per cent of the national total in 1956-60 and 45 per cent in 1961-63. It can be estimated that exploration in the Amazonian region alone—where there is still no production on a commercial scale—accounted for an average of about 30 per cent of total investment in exploration in the period 1956-60, a proportion which dropped to 8 per cent in 1961-63.

5. INVESTMENT IN REFINING

In the years for which complete statistics are available, over 60 per cent of total investment was concentrated in four countries: Argentina, Brazil, Mexico and Venezuela (see table 12). Between 1956 and 1959 the proportion must

⁹ Petroleum reserves in the rest of the country on 31 December 1965 represented 15 per cent of the total reserves; production in the rest of the country in the same year only accounted for 0.5 per cent of total production.

have been even higher, since Brazil and Venezuela alone absorbed about 50 per cent of total investment in refineries. During the four-year period 1960-63, almost all the Latin American countries began to invest in refining. In contrast, Venezuela's annual investment declined so sharply in absolute terms between 1956-60 and 1961-65 that the average figure dropped by almost four-fifths. The share of Venezuela in the regional total was thus reduced from about 35 per cent in the first three of the ten years considered to an annual average of 7 per cent over the rest of the period. This suggests that the refining sector is expanding appreciably throughout Latin America, except in Venezuela (see table 13).

The trend shown in Venezuela was reversed in Brazil, whose share in the Latin American total had reached about 7 per cent by 1956-65. That of Mexico seems to have been some 15 per cent in 1960-65, to judge from the data available.

Except in Venezuela, the expansion of refining capacity in Latin America is geared to the satisfaction of internal demand for petroleum products. In 1939, domestic refining capacity supplied 20 per cent of the market, in 1951, 40 per cent and by 1965, more than 60 per cent. If an import-export balance is drawn up, this implies that in net terms the region's own refineries met 30 per cent of consumer requirements in Latin America as a whole (excluding Venezuela) in 1939, and nearly 100 per cent in 1965.

At the beginning of 1965, Central America and the Caribbean countries (excluding Cuba, Aruba and Curaçao, Panama, Puerto Rico, and Trinidad and Tobago)¹⁰ had an aggregate refining capacity of about 45,000 barrels daily, with an average of 9,000 per plant. Eleven countries in the area—excluding those mentioned above—have built refineries during the period 1965-68, with an average plant capacity of approximately 11,000 barrels daily, and have thus raised total daily capacity to 136,000 barrels. Only two of the six new refineries have a capacity of less than 10,000 barrels daily.¹¹ Setting aside Argentina, Brazil and Venezuela, as well as Mexico, the aggregate refining capacity of the South American countries in 1965 was approximately 273,000 barrels daily, distributed among twenty plants. Between 1965 and 1968, it

¹⁰ Cuba is excluded because of lack of data, and the other countries because their capacity reflects their position as subsidiaries of the major producer and consumer centres.

¹¹ *World Petroleum*, 15 March 1965.

Table 12
LATIN AMERICA: GROSS INVESTMENT IN REFINING, 1956-66
(Millions of dollars)

	1956	1957	1958	1959	1960	1961	1962	1963	1964	1965	1966
Argentina	10	35	10	5	...	...	...
Brazil	17	17	35	54	66	47	44	41	38	32	23
Mexico	30	20	20	40	...	...	...
Venezuela	75	87	56	40	12	10	8	6	17	10	5
Chile	10	10	4	13	19	...	...
Colombia	5	3	6	5	...	...	...
Ecuador	2	2	—	—	...	...	...
El Salvador	—	2	5	8	...	...	...
Guatemala	—	—	—	3	...	...	...
Honduras	—	—	15	—	...	...	...
Jamaica	—	—	—	1	...	...	...
Nicaragua	—	3	2	2	...	...	...
Panama	14	20	—	2	...	...	...
Peru	2	11	1	2	...	...	...
Trinidad and Tobago	15	5	10	18	...	...	...
Uruguay	5	10	—	5	...	...	...
TOTAL, Latin America	230	245	160	170	171	177	125	151	220	135	305

SOURCES: Chase Manhattan Bank publications, except in the case of Brazil, where for the State enterprise—PETROBRAS—the figures given by the Ministry of Planning in *Petróleo (Diagnóstico Preliminar)*, July 1966, were adjusted, and for the private companies' estimates were prepared on the basis of data presented in *Conjuntura Económica*, Rio de Janeiro (various issues) The figures for Venezuela were taken from the Venezuelan Ministry of Mines and Hydrocarbons, *Petróleo y otros datos estadísticos, 1966*, the following being the rates adopted for the purposes of conversion to dollars: 1957-63, 3.09 bolívares to the dollars; other years, 4.40 bolívares to the dollar.

has increased to about 375,000 barrels daily, and the number of plants has risen to twenty-four.¹²

6. INVESTMENT IN TRANSPORT AND MARKETING

(a) Transport

The estimated totals for 1956-65 are lower than the real figures, as reliable data were obtainable only for investment in pipelines. The existing supply of rail and road transport equipment, important as it is for some areas and products, had to be left out of the calculation, owing to the difficulties of preparing reasonably accurate statistics for transport of that kind (see table 14).

For shipping, separate data are available only with respect to Brazil and Venezuela. In other cases, investment was estimated on the basis of the figures for increases in tanker fleets published by ECLA.¹³ Between 1963 and 1965, gross

tanker tonnage decreased by 15 per cent in Argentina (which accounts for 31 per cent of the total for Latin America), remained virtually stationary in Brazil (whose share of the totals is 29 per cent), increased by over 30 per cent in Mexico (to 14 per cent of the total) and underwent no change in Venezuela (standing at 13 per cent of the total). The total for the rest of the countries was 10 per cent higher in 1965 than in 1963.

As from 1959, Venezuela's share in total investment in pipelines in Latin America declined sharply, and in 1960-65 the total figures failed to reach the high absolute levels recorded between 1956 and 1960.

Annual investment in transport fluctuated widely, especially in 1956-60, a period characterized by heavy investment in Venezuela as a result of the boom in refining. In 1961-65, on the other hand, investment was stabilized at about 5 million dollars per annum, and the percentage of crude that was refined remained fairly constant. Thus, refining, whose share in cumulative net investment in the Venezuelan

¹² *Ibid.*

¹³ *Economic Survey of Latin America, 1966* (United Nations publications, Sales No.: E.8.II.G.1), Part Three.

Table 13
LATIN AMERICA: REFINING CAPACITY
(Thousands of barrels daily)

<i>Year</i>	<i>Argentina</i>	<i>Bolivia</i>	<i>Brazil</i>	<i>Chile</i>	<i>Colombia</i>	<i>Cuba</i>	<i>Ecuador</i>	<i>Peru</i>	<i>Trinidad and Tobago</i>	<i>Uruguay</i>	<i>Venezuela</i>	<i>Mexico</i>	<i>Other countries</i>	<i>Total</i>	<i>Curaçao</i>	<i>Puerto Rico</i>
1940..	94.2	0.7	6.5	0.5	14.5	4.2	2.4	22.0	79.3	5.0	54.4	99.8	—	383.5	505.0	—
1947..	98.7	1.2	5.9	0.4	16.7	5.3	3.8	30.0	96.3	6.3	105.6	175.0	—	545.2	617.0	—
1948..	102.0	1.8	9.3	0.4	23.2	6.1	4.7	32.8	96.3	9.0	105.6	183.0	—	574.2	617.0	—
1949..	152.3	7.2	12.0	0.4	23.7	7.3	4.7	35.0	104.3	15.7	133.5	160.4	—	656.5	617.0	—
1950..	151.7	7.2	6.5	0.4	23.8	7.3	4.4	35.1	100.0	25.2	258.5	160.4	—	780.5	624.3	—
1955..	189.1	12.3	105.8	20.0	39.5	7.7	6.0	47.5	115.0	28.0	520.8	408.5	—	1,500.2	640.0	—
1956..	195.9	11.7	111.3	39.7	39.7	8.7	5.6	46.2	137.0	28.0	668.8	440.0	—	1,712.9	650.0	—
1957..	197.3	11.7	113.8	20.0	70.7	84.2	5.6	49.2	141.0	28.0	672.5	444.0	—	1,838.0	650.0	72.3
1958..	221.5	12.3	152.8	24.0	73.4	88.4	5.8	49.2	158.5	28.0	883.0	447.0	—	2,143.9	650.0	77.5
1959..	238.4	12.2	156.3	24.0	51.2	86.9	7.4	49.2	182.0	28.0	945.5	357.0	—	2,138.1	680.0	83.7
1960..	237.5	11.2	208.1	48.0	78.2	86.9	13.2	48.6	295.0	28.0	1,003.5	393.0	—	2,451.2	680.0	95.2
1961..	368.5	11.2	298.8	44.0	80.8	86.9	16.2	48.6	301.0	48.0	1,037.3	375.0	—	2,696.3	680.0	102.0
1962..	378.7	11.5	298.9	44.0	84.1	86.9	15.5	54.9	305.0	48.0	1,072.6	387.0	78.7	2,865.8	680.0	110.0
1963..	372.7	11.5	298.9	47.6	94.3	86.9	15.5	56.3	310.0	51.0	1,127.4	419.0	104.7	2,995.8	670.0	118.0
1964..	393.4	11.5	334.6	54.0	93.3	86.6	15.5	56.4	345.0	51.0	1,182.1	461.0	104.1	3,188.5	670.0	155.0
1965..	423.5	12.2	364.9	83.6	99.9	85.6	19.2	63.2	385.0	35.0	1,199.9	421.0	104.1	3,298.1	740.0	150.0
1966..	436.0	15.0	370.0	91.0	129.0	87.0	12.0	66.0	390.0	40.0	1,212.0	436.0	199.0	3,481.0	795.0	155.0

SOURCES: *The Oil and Gas Journal*; for the year 1966 and for Venezuela, the Venezuelan Ministry of Mines and Hydrocarbons, *Petróleo y otros datos estadísticos, 1966*.

Table 14

LATIN AMERICA: NEW INVESTMENT IN TRANSPORT OF CRUDE PETROLEUM AND PETROLEUM PRODUCTS, 1956-65

(Millions of dollars)

	1956	1957	1958	1959	1960	1961	1962	1963	1964	1965
A. Oil pipelines										
Argentina .....	...	...	...	...	50	25	25	5	...	...
Bolivia .....	...	...	...	...	5	3	0	0	...	...
Brazil .....	...	...	...	...	15	12	9	8	15	19
Chile .....	...	...	...	...	2	6	1	3	...	...
Colombia .....	...	...	...	...	3	1	2	10	...	...
Ecuador .....	...	...	...	...	1	0	0	0	...	...
Mexico .....	...	...	...	...	50	10	20	5	...	...
Peru .....	...	...	...	...	1	0	0	0	...	...
Venezuela	35	70	110	30	20	5	5	5	5	5
TOTAL, oil pipelines	45	95	135	205	147	62	62	36	25	25
B. Tankers										
Brazil	3	10	19	20	46	12	7	16	10	7
Venezuela	5	5	15	0	5	0	0	0	0	0
Others .....	...	...	5	5	5	5	4	4	4	15
TOTAL, tankers	8	15	39	25	56	17	11	20	14	22
C. TOTAL, Latin America (A + B)										
	53	110	174	230	203	79	73	56	39	47

SOURCES: Estimates based on data furnished by the Chase Manhattan Bank and PETROBRAS (Brazil).

petroleum industry came next to that of production in 1956-61, lost ground to transport in 1962-65.

In the rest of Latin America, transport continued to absorb a much smaller proportion of investment than refining, although this assessment may embody a wide margin of error, since lack of data precludes consideration of certain transport media whose relative importance is substantial in some cases.

(b) *Marketing*

In Venezuela, the share of marketing in investment was tiny in 1956-65 in relation to that of the other categories or activity in the petroleum sector (see table 15, which covers all petroleum products).

The explanation lies in the disparity between domestic consumption of petroleum products on the one hand, and production and refining on the other.

In the other Latin American countries, the proportion of total investment in the petroleum industry represented by annual investment in marketing ranged from 10 to 20 per cent. The reason for the downward trend in 1961-65 is to be found in the disproportionate increase in investment in refining and transport.

7. INVESTMENT IN USE OF NATURAL GAS

Consumption of natural gas in Latin America was five times greater in 1965 than in 1956 (see table 16). The biggest increase took place between 1961 and 1965, when consumption soared from 6,750 million cubic metres to

Table 15

LATIN AMERICA: NEW INVESTMENT IN MARKETING, 1956-65

Year	Millions of dollars		Percentage of total investment in petroleum	
	Venezuela	Other countries	Venezuela	Other countries
1956	10	70	1.2	16.5
1957	10	80	0.9	15.2
1958	15	95	2.0	18.1
1959	15	100	3.2	11.8
1960	15	110	5.2	12.0
1961	15	175	7.5	19.4
1962	10	100	5.2	14.0
1963	10	75	5.0	11.1
1964	20	75	9.5	11.8
1965	10	75	4.8	11.4

SOURCE: Chase Manhattan Bank, *Capital Investments of the World Petroleum Industry*.

Table 16
LATIN AMERICA: CONSUMPTION OF NATURAL GAS OUTSIDE THE
PETROLEUM INDUSTRY, 1956-65

(Millions of cubic metres)

Year	Argentina	Brazil	Colombia	Mexico	Venezuela	Latin America
1956	305	—	—	1,378	932	2,615
1957	388	—	—	1,414	1,120	2,922
1958	398	—	—	1,679	1,260	3,337
1959	421	—	—	1,965	1,515	3,901
1960	805	66	—	2,436	1,686	4,993
1961	1,714	54	—	3,203	1,781	6,752
1962	2,238	30	121	3,909	2,043	8,341
1963	2,465	34	204	4,648	2,249	9,600
1964	2,761	33	320	5,364	2,557	11,035
1965	3,317	35	...	6,178	2,703	12,233

SOURCE: ECLA, on the basis of official statistics.

12,230 million. Mexico accounted for one-half of this total. Next came Argentina, where consumption amounted to 3,300 million cubic metres, and Venezuela, with 2,700 million. Consumption in the other countries as a whole, excluding that of the petroleum industry, did not represent even as much as 5 per cent of total consumption in the region.

Production of gas (generally in association with crude petroleum) is far in excess of consumption; it is therefore estimated that consumption may increase considerably in the near future, if gas is used as raw material for the petrochemical industry or exported in liquid form (as might be done in Venezuela).¹⁴

Separate figures for investment in natural gas cannot be given, as it is not usually itemized in investment breakdowns. For Argentina, however, it was possible to obtain these data (see table 17).

Hitherto, almost all the natural gas used in Latin America has been associated gas, and consequently little or no investment has been required at the production stage. In Mexico, Brazil and Argentina a few free gas deposits are being worked. Apart from the figures on Argentina given in table 17, it is assumed that in Brazil investment has been insignificant, since the volume of consumption is small, and that in Mexico, on the other hand, it has been substantial, although in neither case are statistical data available.

It is in the transport of natural gas that initial investment requirements are heaviest. For the

¹⁴ See *The Oil and Gas Journal*, 20 November 1967; and also Creole Corporation, *Carta Semanal de Noticias*, Caracas, 17 May 1968, p. 1.

purposes of estimating them, the only data available, over and above the complete figures for Argentina, are those relating to the construction of gas pipelines in Mexico and Venezuela. Yearly estimates cannot be prepared, however, as these data cover only increases in the total length of the systems, and are based on the dates of entry into operation of various gas pipelines.

On the basis of the costs of gas pipelines with different diameters and of the auxiliary compression plant, total investment in Mexico in 1956-65 would seem to have been approximately 150 million dollars. A similar estimate for Venezuela gives a total investment of 45 million dollars over the same period.

For the other sectors of activity (storage and marketing) direct information is available only for Argentina. However, application of this country's standards of investment suggests that in Mexico annual investment may have amounted to approximately 20 million dollars and in Venezuela to about 5 million.

8. FOREIGN INVESTMENT

Except in Argentina and Mexico, it was not until after the Second World War that domestic investment in the petroleum industry in Latin America began to make a significant contribution to the total, which was stepped up in 1956-65. Foreign investment, mainly on the part of the United Kingdom and the United States, was responsible for the whole of the initial financing of the industry, except in Argentina. Cases of pioneer domestic investment in some countries can be cited, but they are of purely

Table 17
ARGENTINA: INVESTMENT IN USE OF NATURAL GAS, 1959-65
(Millions of dollars)

Year	Production	Transport	Storage	Marketing	Other investment	Total
1959	3.4	2.9	—	1.5	1.4	9.2
1960	11.4	188.5	0.4	7.2	2.4	211.9
1961	17.9	18.6	0.2	13.2	2.5	52.4
1962	31.0	20.2	2.3	5.2	3.3	62.0
1963 ..	46.0	12.8	1.4	5.4	2.8	68.4
1964	21.2	68.2	3.9	5.9	3.3	102.5
1965	17.5	66.0	7.4	5.8	4.2	100.9

SOURCE: *State Gas Enterprise*. Conversion to dollars was based on the following exchange rates published by the International Monetary Fund in *International Financial Statistics*; which are as follows:

Year	Number of pesos to the dollar
1959	82.00
1960	83.00
1961	83.02
1962	134.10
1963	132.50
1964	150.90
1965	188.50

historical interest, and lack the importance attained by domestic investment in Argentina right from the beginning of the century, or in Mexico with the nationalization of the industry in 1938.

Prior to 1914, investment was channelled almost in its entirety into the marketing of petroleum products, imported from the United States, except in Mexico and Peru. In 1914 the United States' extra-territorial investment in production of crude amounted to about 143 million dollars, of which 110 million were placed in Latin America, the lion's share (about 85 million) falling to Mexico. Another 15 million dollars were invested in Peru, and only 5 million in Venezuela.¹⁵

The United Kingdom had twenty-three petroleum concerns in the region, twelve of which were in Mexico, while the others were spread over Cuba, Peru, Venezuela and Ecuador. Most of these enterprises devoted their energies to exploration and to the purchase and sale of properties and concessions; only a few—in Peru, Venezuela and Mexico—were actively engaged in production.¹⁶

¹⁵ Cleona Lewis, *America's Stake in International Investment* (Washington, The Brookings Institution, 1938).

¹⁶ J. F. Rippey, *British Investments in Latin America, 1822-1949* (University of Minnesota Press, 1959).

By the early nineteen-twenties, the United States had trebled its investment in production in Latin America, expanding it in Colombia and Venezuela, although Mexico was still the most favoured recipient, and absorbed 70 per cent of the 290 million dollars invested in the region.¹⁷ Since then, petroleum investment in Latin America has been characterized by the preponderance of United States capital and by the growth of Venezuela's share, especially in the production sector.

Nevertheless, the proportion of the United States' total cumulative investment in petroleum industries abroad that was placed in Latin America dropped from 55 per cent in 1929 to 45 per cent in 1940, 42 per cent in 1950 and 30 per cent in 1956. In 1965 it was 23 per cent.¹⁸

Venezuela's share in total United States investment in petroleum in the world as a whole covered around 20 per cent up to 1956, but by 1965 had dwindled to 13 per cent (see table

¹⁷ *America's Stake in International Investment*, op. cit.

¹⁸ Based on data taken from L. M. Fanning, *American Oil Operations Abroad* (New York, McGraw-Hill, 1947) up to 1940 and from *Foreign Oil and Free World* (New York, McGraw-Hill, 1954) for 1950. For the other years the data given are based on figures from the United States Department of Commerce, *Survey of Current Business*, September issues.

18). Of total investment in Latin America, however, the proportion absorbed by Venezuela still exceeded 50 per cent, and in 1957 and 1958 climbed above 70 per cent; only in 1964 and 1965 did it fall below 60 per cent.

The United States' direct investment in plant and equipment in Latin America followed a downward trend in relation to its investment in petroleum in the world as a whole, since the proportion it represented declined from 32 to 16 per cent between 1958 and 1965. According to provisional data, the corresponding figures for 1966 and 1967 are 10 per cent and 11 per cent respectively (see table 19).

In terms of annual averages, the United States' contribution to new investment decreased from 43.2 per cent in 1957-60 to 37.6 per cent in 1961-65 (see table 20).

It is difficult to relate cumulative Latin American investment to direct foreign investment, because complete data on the latter are available only for Venezuela, and the figures obtainable from different sources show very marked discrepancies,¹⁹ under a wide variety of heads.

If cumulative gross foreign investment (see table 21) is compared with the figures for cumulative investment in Latin America presented in table 6, it will be seen that foreign investment accounted for 80 per cent of the total in 1956 and 43 per cent in 1964. These proportions are not exact, because except in Venezuela's case the data do not incorporate foreign investment other than that of the United States; but they represent a fair approximation, since the investment placed in other countries is not on such a large scale as that effected in Venezuela.

The figures are further distorted by currency conversion and accounting difficulties, apart from the fact that they do not reveal the true extent of foreign interests in the petroleum economy, inasmuch as the reports of the firms concerned give no indication of the real value of the petroleum discovered.

Data on which to base a breakdown of foreign investment by types of activity are still more unreliable. Up to 1940, foreign investment was concentrated mainly in the marketing and production sectors. Most of Venezuela's crude was

¹⁹ For example, the figures given by the Chase Manhattan Bank are 50 per cent higher than those published by the United States Department of Commerce. This discrepancy may be due to revaluations of assets, differences in methods of breaking down data, use of different exchange rates, etc.

refined at the plants in Trinidad and in Aruba and Curaçao. By 1940 Venezuela had already become the world's second largest petroleum producer after the United States, with about 600,000 barrels daily, but its refining capacity in that year was 54,000 barrels daily, i.e., slightly more than half that of Mexico (100,000 barrels) or Argentina (94,000 barrels), 60 per cent of that of Trinidad (79,000 barrels), and just over 10 per cent of that of Aruba and Curaçao (505,000 barrels). Not until the nineteen-fifties was there a considerable expansion of refining in Venezuela.

The distribution of United States investment among the various sectors of Venezuela's petroleum industry seems to have undergone little change in 1957-64. Of total net investment in production, refining and marketing in 1957, production absorbed 88 per cent, refining 11 per cent and marketing 1 per cent. The share of refining decreased to 10 per cent in 1964, while that of marketing increased to 2 per cent.²⁰

In the rest of Latin America, on the other hand, the distribution of United States investment altered substantially between 1957 and 1964. In 1957, 55 per cent went into production, 18 per cent into refining, and 27 per cent into marketing. In 1964, the corresponding proportions were, respectively, 41, 36 and 23 per cent²¹

9. CAPITAL REQUIREMENTS, 1965-80

(a) *General remarks*

Long-term projections of capital formation in the petroleum sector of the economy are indispensable both for over-all development programmes and for the oil companies themselves, since the petroleum industry is so vast and complex that for management purposes something must be known of the trends it is likely to follow over the next ten or fifteen years. The petroleum industry is affected, however, by a number of economic, political and other exogenous factors for which long-term forecasting is a very hazardous business, apart from the lack of complete technical and statistical data on which to base the application of a model taking all identifiable variables into account.

Accordingly, the projections presented here are based as a rule on the ratios between capital investment and increases in production (or domestic demand in the case of marketing)

²⁰ Chase Manhattan Bank, *Balance of Payments of the Petroleum Industry*.

²¹ *Ibid.*

Table 18
UNITED STATES: CUMULATIVE DIRECT INVESTMENT IN FOREIGN PETROLEUM INDUSTRIES,^a 1956-65
(Millions of dollars)

	1956	1957	1958	1959	1960	1961	1962	1963	1964	1965 ^b
<i>Total, all areas</i>	7,280	8,991	9,681	10,423	10,944	—	12,661	13,652	14,334	15,320
<i>Canada</i>	1,768	2,154	2,410	2,465	2,667	—	2,834	3,134	3,187	3,320
<i>Latin America^c</i>	2,232	3,060	3,211	3,312	3,264	—	3,644	3,636	3,630	3,534
Brazil	211	227	215	82	76	—	79	60	53	57
Colombia	107	106	91	225	233	—	257	246	255	265
Mexico	17	18	19	30	32	—	67	65	56	48
Venezuela	1,411	2,179	2,302	2,164	1,995	—	2,202	2,166	2,139	2,033
Other countries	486	530	584	811	928	—	1,039	1,099	1,127	1,131
<i>Europe</i>	992	1,184	1,256	1,453	1,726	—	2,365	2,776	3,102	3,429
<i>Africa</i>	—	254	276	338	407	—	627	702	883	1,020
<i>Asia</i>	—	1,747	^d 1,864	1,662	1,655	—	1,761	1,920	2,054	2,384
Middle East	—	1,118	1,218	1,170	1,119	—	1,148	1,206	1,240	1,491
Far East	—	629	646	492	536	—	612	714	814	893
<i>Oceania</i>	—	—	—	355	372	—	462	496	453	499
<i>Cumulative investment in tankers, international</i>	—	593	664	838	851	—	968	988	1,064	1,133

SOURCE: United States Department of Commerce, *Survey of Current Business* (September of each year).

^a I.e., United States investment abroad.

^b Provisional figures.

^c Including dependent territories in the western hemisphere.

Table 19

UNITED STATES: DIRECT INVESTMENT IN PLANT AND EQUIPMENT FOR FOREIGN
PETROLEUM INDUSTRIES, 1957-65

(Millions of dollars)

	1957	1958	1959	1960	1961	1962	1963	1964	1965
Total, all areas	2,322	1,854	1,558	1,467	1,534	1,628	1,889	2,079	2,267
Canada	584	510	380	360	315	300	375	385	503
Latin America ^a	1,039	577	449	340	306	339	307	327	368
Brazil	—	—	5	5	5	4	3	4	3
Colombia	—	—	25	25	30	32	30	58	35
Mexico	—	—	1	1	2	2	10	5	2
Venezuela	—	—	280	160	135	145	142	134	130
Other countries	—	—	128	149	134	156	122	126	198
Europe	275	422	399	345	438	494	642	645	603
Africa	—	—	74	115	171	176	164	271	284
Asia	—	—	172	176	195	178	297	280	430
Middle East	—	—	81	76	87	72	125	111	233
Far East	—	—	91	101	108	106	172	169	197
Oceania	—	—	44	66	64	76	64	65	74
Annual investment in tankers, international .	—	—	100	65	45	65	40	100	66

SOURCE: United States Department of Commerce, *Survey of Current Business*.

^a Including dependent territories in the western hemisphere.

over the last ten years. These findings were checked against direct information or investment budgets supplied by some of the companies. Capital-output ratios largely depend upon the structure of production, which may vary widely from one period and/or from one area to another, but the special characteristics of the base period adopted for the projections, which

exerted a marked influence on the structure in question, could not always be taken into consideration. Nor was it possible, in every case, to account for certain anomalous variations in the data reviewed and, accordingly, to eliminate them or to assess the limits within which they may recur in the future.

Table 20

LATIN AMERICA: NEW INVESTMENT IN THE
PETROLEUM INDUSTRY, 1957-65

(Millions of dollars)

Year	Total	United States investment	United States investment as a percentage of total
1957	1,600	1,039	65
1958	1,250	577	46
1959	1,325	449	34
1960	1,200	340	28
1961	1,100	306	28
1962	895	339	38
1963	800	307	38
1964	775	327	42
1965	870	368	42

SOURCES: For total figures, Chase Manhattan Bank; for United States, United States Department of Commerce, *Survey of Current Business*.

In view of the impossibility of taking into consideration all the variables needed for an ideal projection, it was decided to determine future investment on the basis of one selected factor which could be independently evaluated. The investment concerned was then estimated in accordance with the ratio between the time series for the factor chosen and the capital invested during the same period, this coefficient being applied to the projection series. Geological conditions and production potential in the Latin American countries, together with the growth of demand, were treated as decisive factors in the calculation of future investment.

The viability of these projections might usefully be discussed in the light of investment theory. Such an analysis would have to take into account not only the views of the countries concerned but also those of the international enterprises operating in their territory, which are not always the same with respect to investment decisions. At all events, developments are

Table 21
LATIN AMERICA: CUMULATIVE GROSS FOREIGN INVESTMENT, 1956-64
(Millions of dollars)

Year	Venezuela				Other countries ^a	Total
	United States	United Kingdom	Netherlands	Total		
1956	2,610	475	1,151	4,236	821	5,057
1957 .....	...	...	...	...	881	...
1958	3,438	581	1,419	5,438	909	6,347
1959	3,429	579	1,430	5,438	1,148	6,586
1960	3,693	2,048	—	5,741	1,269	7,010
1961	3,679	2,090	—	5,769	...	...
1962	3,822	2,007	—	5,829	1,442	7,271
1963	3,850	1,961	—	5,811	1,470	1,281
1964	3,271	1,384	—	4,655	1,491	6,146

SOURCES: For Venezuela, Central Bank reports and papers; for other countries, United States Department of Commerce, *Survey of Current Business*.
^a United States investment only.

tending to bear out the hypotheses established here.

(b) *Unit investment*

World averages for investment in the petroleum industry per barrel/day of output, with the exclusion of the United States, Canada and the socialist countries, usually vary as follows:

	<i>Dollars</i>
Production	800 to 1,100 ²²
Refining	500 to 600
Marketing	550 to 650

The following are the corresponding figures for Latin America:

	<i>Dollars</i>
Production	730 to 3,600 (weighted average 1,250)
Refining	500 to 1,400 (weighted average 820)
Marketing	600

These figures were worked out by analysing annual investment over a fairly long period. In both cases, "production" includes expenditure on exploration.

The unit investment required to produce, process and market a barrel of petroleum is calculated on the basis of gross investment, as it is extremely difficult to break the latter down by replacement and new investment. Thus, the figures were obtained by adding to the volume of production the probable volume of replacement requirements, computed in accordance with current annual depreciation rates for each dif-

²² Including 180 dollars per barrel for non-capitalized expenditure on exploration.

ferent item. The resulting total formed the divisor of the investment coefficient.

Again, as a perfect correlation between exploration and production is impossible, the inclusion of exploration in the capital coefficient detracts from the latter's usefulness for projection purposes. The solution would be to ascertain the approximate cost of finding petroleum reserves, in order to estimate how much would have to be invested in exploration if a satisfactory ratio was to be maintained between proven reserves and the level of production selected.

But, as was shown in the analysis of Latin American investment, expenditure on exploration can scarcely ever be differentiated from expenditure on production. Nor is precise information always available on what proportion of the increase in reserves is represented by new discoveries. It is therefore virtually impossible to evaluate the cost of proving reserves.

The difficulty is not peculiar to Latin America. It also arises in areas that have long been petroleum producers and have plenty of data at their disposal—for example, the United States. Presumably, on the basis of a company's cost accounting and records of reserves, and by means of a chronological breakdown of the data, a representative figure for the cost of oil-finding per barrel of petroleum could be arrived at; but such information is never published.²³

²³ See W. F. Lovejoy and Paul T. Homan, *Methods of Estimating Reserves of Crude Oil, Natural Gas, and Natural Liquids* (Resources for the Future, Inc., 1965); and W. D. Davis, "The Enigma of Oil and Gas Finding Costs," *Accounting Papers of the Eighteenth Annual Conference of Accountants* (Tulsa, Oklahoma, 1964).

A few examples will suffice to show how strong an element of fortuity is introduced into the projections by the inclusion of expenditure on exploration. In Ecuador, between 1938 and 1950 two companies spent in the aggregate about 50 million dollars on continuous exploration, without striking oil. Some ten companies secured exploration rights in the Sechura Desert in Peru; between 1953 and 1956, twenty-two wells were drilled at a cost of 20 million dollars, but no results were obtained on a commercial scale. In Brazil, about 100 million dollars were invested in the Amazon basin in 1955-63, and 30 million in the Paraná basin; in neither case did the investment prove an economic proposition.

Despite all the objections to an over-all coefficient including expenditure on both exploration and production, it has to be adopted by force of circumstances, in default of a more accurate method.

A comparison between unit investment figures in the various Latin American countries reveals wide disparities in investment costs in the region, attributable not only to differences in productivity per well, but also to the stage of development reached by the industry. Except in Venezuela's case, the petroleum industry in Latin America must be regarded as incipient in comparison with its counterparts in other regions. Its exploration costs are close to the world average for *starting* production of petroleum in a new area, which has been established at about 2,000 dollars per barrel/day;²⁴ its investment in refining, simple as is the plant installed, approaches the average cost of installing much more complex new refineries in other parts of the world; and only at the distribution stage is unit investment comparable to world standards.

Unit investment decreases to a marked extent as the industry reaches higher levels of development; but, setting aside Venezuela, the world average is approached in only very few countries, among them being Colombia and Mexico.

In Brazil, investment figures still reflect such temporary initial components as investment in infrastructure. This situation may possibly be prolonged for a time, as the development of new oilfields is just beginning. The same is true of Bolivia, where unit investment is higher than in Brazil. The reason why unit investment is so heavy in Ecuador, Peru and Argentina is to be

found in the low rate of production per well and the resultant high level of drilling costs per unit of output.

In the case of refineries, investment costs are determined by the complexity of the plants. As the complexity index is seldom high in Latin America, unit investment in new refineries works out at 700 to 1,000 dollars per barrel/day. As refining develops, investment per unit of additional production capacity decreases, but as this activity is only recently growing up in the region, unit investment in refining is much the same as that required for new refineries.

(c) *Investment projections, 1965-80*

Table 22 presents estimates of the capital likely to be needed for the development of the petroleum industry in Latin America between 1965 and 1980, based on the assumption that demand for hydrocarbons will be met both with domestic production and refining and with imports. To define the relative contribution of each of these sources, use was made of official data on the capacity for payment allocated to the petroleum sector and on the prospects for domestic production of hydrocarbons.

The figures represent gross investment, or, in other words, they include the sums estimated for the replacement of depleted capacity, on the basis of the rates that were applied in calculating unit investment.

It was not possible, however, to make allowance for obsolescence, except to the extent implicit in current depreciation. Nor was utilization of the capacity existing in all sectors at the beginning of the projection period taken into account; this is largely justified by the fact that it was undoubtedly being fully utilized.

Capital goods costs are affected by conflicting factors: rising price trends are offset by lower total capital expenditure. The data for the most recent period were adjusted on the basis of available information regarding investment under way.

Table 23 shows the investment effected or projected from 1956 to 1980. The total for 1961-65 is nearly 35 per cent higher than the corresponding figure for 1956-60. Although there is an increase of 30 per cent between 1956-65 and 1966-75, the growth rate drops from 20 per cent in 1971-75 to about 15 per cent in 1976-80. This is due to the change in the composition of production by countries. While Venezuela accounts for 627,000 of the additional 889,000 barrels per day produced in

²⁴ W. J. Levy, *The Search for Oil in Developing Countries* (New York), International Bank for Reconstruction and Development, 1960.

Table 22

**LATIN AMERICA: TOTAL GROSS INVESTMENT IN PETROLEUM AND GAS,
1966-80**

(Millions of dollars)

	1966-70	1971-75	1976-80	1966-80
Exploration and production	3,850	4,560	5,200	13,610
Refining	990	1,430	1,700	4,120
Marketing	560	680	850	2,090
Pipelines	260	80	80	420
Maritime and inland waterway transport	120	80	100	300
TOTAL, petroleum	5,780	6,830	7,930	20,540
Natural gas ^a	580	600	700	1,880
Liquid gas ^a	70	50	40	160
TOTAL, gas and petroleum	6,430	7,480	8,670	22,580

SOURCE: ECLA projections.

^a Proportion not included under previous heads.

1960-65, its share in the increment of 872,000 per day projected for 1966-70 is only 413,000. As unit investment is always much lower in Venezuela than in the other Latin American countries, total investment by the other countries will increase. But in the course of the whole period, production increments are expected to revert to the same proportions as in the past, which explains the percentage decline in the subsequent five-year periods.

There is little change in the percentage shares of the various sectors between 1956-60 and 1961-65, but in the fifteen years covered by the projection, that of production follows a rising trend in relation to 1961-65.

World projections covering the period 1966-80 are not available for comparison with the estimates presented here. It may reasonably be assumed, however, that with the exclusion of the United States, Canada and the socialist countries investment in the world petroleum industry will amount to about 36,000 million dollars in 1965-70. Latin America's share in this total will be 16 per cent, or 1 per cent less than in 1961-65.

United States investment in Latin America will have totalled slightly over 1,100 million dollars in 1966-68,²⁵ and in 1969 should not be less than 300 million.²⁶ Since estimates from the same source as the latter figure fell 50 per cent short of the real figures for earlier years, it may be assumed that 1,000 million dollars will

be invested in 1969-70. Thus United States investment alone should amount to 2,100 million dollars, i.e., 36 per cent of the total petroleum investment projected for Latin America in 1966-70.

The figures for investment requirements in 1965-80 are unprecedented in the development of the petroleum industry in Latin America, except for Venezuela. Little is known of the capital formation situation in the various countries. Setting aside the more or less marked distortions introduced by the inflation factor, the industry's sinking fund for depreciation would be able to contribute about 25 per cent of the amount of capital required. Given the foreign contribution indicated above the funds available would cover approximately 60 per cent of the investment needed.

10. METHODOLOGICAL NOTES

(a) *Appraisal of the data used*

The figures available are often inaccurate and are not always based on data supplied by the petroleum companies themselves, nor are they invariably comparable with the figures obtained from other sources.

For instance, the financial data furnished by the Chase Manhattan Bank are taken from a sample based on the annual reports of the petroleum companies and other sources of information representing the bulk of the world petroleum industry. Where no first-hand information was available, the estimates were worked out by applying coefficients (obtained by comparing

²⁵ *The Oil and Gas Journal*, 16 October 1967.

²⁶ *Engineering News Record*, McGraw-Hill, 10 August 1967.

Table 23
LATIN AMERICA: ANNUAL GROSS INVESTMENT IN PETROLEUM AND GAS,
1956-80

(Millions of dollars)

Year	<i>Explora- tion and production</i>	<i>Refining</i>	<i>Pipe- lines</i>	<i>Maritime and inland waterway transport</i>	<i>Marketing</i>	<i>Gas^a</i>	<i>Total</i>
1956	565	230	45	8	80	...	928
1957	811	245	95	15	90	...	1,256
1958	820	160	135	34	110	...	1,259
1959	785	170	205	20	115	9	1,304
1960	691	171	147	51	125	212	1,397
TOTAL, 1956-60	3,672	976	627	128	520	221	6,144
1961	645	178	62	12	190	52	1,139
1962	554	125	62	7	110	62	920
1963	506	152	36	16	85	68	863
1964	425	220	25	10	80	102	862
1965	500	135	25	7	85	101	853
TOTAL, 1961-65	2,630	810	210	52	550	385	4,637
<i>Projections</i>							
1966-70	3,850	990	260	120	560	650	6,430
1971-75	4,560	1,430	80	80	680	650	7,480
1976-80	5,200	1,700	80	100	850	740	8,670

SOURCE: ECLA projections.

^a Natural gas and liquid gas not included under previous heads.

the figures in the sample) to the physical data, which are easier to find.²⁷

This method, which is satisfactory as far as the major producing and consuming areas are concerned or for an analysis of the world situation, is much less useful if the petroleum industry in Latin America (excluding Venezuela) is considered separately, since its conditions are not comparable with those of the major producing areas.

Apart from being inadequate in their coverage, the current financial data on the petroleum industry suffer from other shortcomings due to the industry's accounting practices, which may lead to erroneous conclusions when the area of analysis is narrowed down too much.

The financial statistics are usually the by-products of records whose form and substance are geared to the requirements of the law and are therefore more useful for legal purposes than as a guide to the definition of economic

concepts. The different meanings attributed to the term "capital" and similar or derived concepts are reflected in ledger entries, and are thus largely responsible for the lack of uniformity in the data presented.²⁸ Petroleum data have other defects as well that stem from the fact that most of the major integrated petroleum companies are widely dispersed, both geographically and operationally.²⁹

There are also commercial reasons for not observing a high standard of accuracy in the published data; this is true not only of financial aspects but of some of the physical data, such as those referring to proved reserves. These shortcomings are more pronounced, when, as in the case of petroleum, the market is highly

²⁸ See O. Morgenstern, *On the Accuracy of Economic Observations* (Princeton, New Jersey, 1963), p. 70; S. P. Porter, *Petroleum accounting practices* (New York, McGraw-Hill, 1965), chapter 15 in particular; Petroleum Accountants' Society of Western Canada, "Study of full cost accounting"; Arthur Andersen & Co., *Accounting for oil and gas exploration costs* (1963).

²⁹ *On the Accuracy of Economic Observations*, op. cit., p. 71.

²⁷ A. G. Gols, "Postwar U.S. Foreign Petroleum Investment". In *U.S. Private and Government Investment Abroad*, R. F. Mikesell, ed. (Eugene, Oregon, 1962), p. 415.

concentrated.³⁰ The greater the power of the monopolies and oligopolies, the less reliable will be certain statistics on the petroleum industry.³¹ Even in the case of the so-called independent concerns the information is seldom wholly satisfactory.³²

The same may be said of the government enterprises. Morgenstern, for instance, points out the discrepancies between the data published by United States government offices and by the Bank of England, which are due to considerations of security or economic policy.³³

Where Latin American State petroleum enterprises are concerned, the discrepancies are more likely to be due to the difficulty of delimiting their powers of action as enterprises and their place in the public administration. These enterprises may, for example, enjoy certain investment privileges, such as tax exemptions, special exchange rates, and special terms for the purchase of property which lead to a considerable difference between book and market values during the period of investment. The effects of inflation are such as to render meaningless or highly conditional the conversion of expenditure in local currency into dollars, and the calculation of the figures in constant values poses serious accounting and statistical problems. The result is that investment is seemingly underestimated in the context of the prevailing economic conditions in the petroleum industry and the country in general. Consequently, reliance on a simple comparison of the unadjusted book values in the companies' records must be ruled out.

Investment requirements may also be pushed up by the need to purchase domestic equipment and use local services in the interests of promoting the national economy, although their costs are often far higher.

The records of the public enterprises possibly give a more faithful picture of the facts, since they include disbursements in allied social fields,

³⁰ On the mode and degree of the concentration in general, see M. de Chazeau and A. Kahn, *Integration and Competition in the Petroleum Industry* (Yale University Press, 1959). On the Middle East, see Issawi and Yeganeh, *The economics of Middle Eastern oil* (New York, Praeger, 1962), pp. 58-59.

³¹ On the Accuracy of Economic Observations, op. berry, *Business cycles and economic growth* (New York, McGraw-Hill, 1958).

³² W. Leeman, *The price of Middle East oil* (Cornell cit., p. 18; "Oligopoly and investment". In J. S. Duesen-University Press, 1962), p. 38.

³³ On the Accuracy of Economic Observations, op. cit., p. 20. On accounting manipulations, see Z. Mik-dashi, *A Financial Analysis of Middle Eastern Oil Con-cessions: 1901-65* (New York, Praeger, 1966).

as is the practice in such countries as the United States.³⁴

In Latin America it is difficult to obtain the fund of information needed to prepare tables that are truly comparable. But if the limitations of the material are borne in mind and the discrepancies allowed for, it is possible to adjust the data so as to make the criteria as uniform as possible.

The complexity of the problem of currency conversion is best illustrated by the case of Brazil. Book values in cruzeiros give a false idea of the volume of investment, and the situation is much the same in Argentina, Chile and Uruguay. The reason is that the special exchange rates applied to imports for the petroleum industry were set far below what may be considered the real rate. Moreover, the other official rates in 1953-61 are not representative, since that was the period when a system of public foreign exchange auctions was adopted, and the only fixed point was the minimum rate established for each of the categories into which Brazil's imports were divided. The official exchange rates are listed in table 24, where they are compared with the purchasing power parity rate during 1955-65.³⁵ The special rate for the petroleum industry remained well below the other rates from 1955 to 1963. In the last few years, a single official rate of a more realistic kind has been applied to all imports, including those for the petroleum industry.

The figures in cruzeiros are distorted by two factors acting in opposition. One is the yearly increase in investment and the quickening tempo of inflation, and the other is the reduction in the value of the import content of capital goods. By roughly calculating the percentage share of imports in total investment each year, it was

³⁴ R. Engler, *La politica petrolera* (México, Fondo de Cultura Económica, 1966), p. 162.

³⁵ In spite of the limitations to Cassel's theory, writers on the subject generally agree that there is a clear relationship between exchange rates and prices, which tends to maintain a certain equilibrium. This justifies its practical application in this study, mainly in relation to the high rate of Brazilian inflation during the period under consideration. See P. Samuelson, *Economics* (New York, McGraw-Hill, 1948), p. 386. In addition a formula has been adopted to allow for the relationships between import and export prices. Useful information on this subject can be obtained from: L. Federici, *Teoria dei cambi* (Milan, 1945); J. T. Walter, *Foreign Exchange Equilibrium* (University of Pittsburgh Press, 1951); J. W. Angell, *The Theory of International Prices* (Harvard, 1926); J. M. Keynes, *A Treatise on Money* (London, 1958); A. Sampaio, *Determinação numérica da taxa cambial* (Rio de Janeiro, 1953); B. Balassa, "The purchasing power parity doctrine: a reappraisal", *The Journal of Political Economy*, vol. LXXII, December 1964 issue.

Table 24
BRAZIL: EXCHANGE RATES, 1955-65
(Cruzeiros per dollar)

Year	Official exchange rate		Average special rate for the petroleum industry	Average purchasing power parity rate
	On 31 December	Annual average		
1955	73.97	—	31.32	66.73
1956	73.93	—	31.32	82.73
1957	76.42	—	42.15	87.57
1958	139.80	—	63.83	104.44
1959	184.10	—	100.00	139.65
1960	195.00	—	100.00	166.92
1961	307.00	—	214.50	241.10
1962	475.00	—	318.00	411.39
1963	620.00	—	547.50	669.67
1964	1,850.00	1,314.80	1,314.80	1,213.31
1965	2,200.00	1,920.00	1,920.00	1,857.60

SOURCES: The data on prices in Brazil have been taken from different issues of *Conjuntura Econômica* (Rio de Janeiro), United States price indexes have been taken from the *Federal Reserve Bulletin*.

possible to deduct the cost of the imports in cruzeiros from the aggregate value, and then re-establish the original value of the imports in dollars by applying the special exchange rates to the cost estimates. Meanwhile, the value of investment in local currency was converted into dollars at the purchasing power parity rate given in table 24. The sum of the two is pre-

sented in table 25, which also shows the composition of investment.

Up to 1955 about 50 per cent of the total investment was in local currency. Between 1955 and 1965 this proportion shrank until it averaged less than 30 per cent, and has probably decreased a good deal more in the last few years.

Table 25
BRAZIL: INVESTMENT IN THE PETROLEUM INDUSTRY, 1938-65

Year	Total in millions of dollars	Output ^a	Refining	Maritime transport	Terminals and pipelines	Schist processing	Marketing
1938 to 1945 ...	19.3	...	...	...	...	...	...
1946 to 1950 ...	28.3	...	...	...	...	...	...
1951 to 1955 ...	30.3	...	...	...	...	...	...
1956	70.0	26.4	37.0	3.0	0.1	0.8	32.7
1957	87.7	46.0	26.6	7.9	0.1	0.9	18.5
1958	131.7	39.2	30.1	10.6	0.1	0.5	19.5
1959	131.5	31.3	51.0	12.5	0.1	0.5	4.6
1960	190.8	24.3	38.9	17.7	11.5	0.6	7.0
1961	132.4	37.5	34.7	9.0	10.6	0.9	7.3
1962	133.2	39.5	34.3	5.4	7.2	1.0	12.6
1963	140.8	44.8	28.5	9.7	6.4	1.5	9.1
1964	134.0	44.5	22.1	8.2	12.1	1.5	11.6
1965	165.0	47.6	20.3	5.4	14.2	1.7	10.8

SOURCES: Reports of the National Petroleum Council; Ministry of Planning, *Petróleo*; various issues of *Conjuntura Econômica* (Rio de Janeiro).

^a Including exploration.

The way in which to reconstruct missing links in the data has been demonstrated in the cases of Mexico and Venezuela. In the former, the sources used were total petroleum investment,³⁶ total cumulative investment in exploration and production from 1947 to 1958,³⁷ and a number of investment in exploration only.³⁸ The proportion of the total that is accounted for by investment in exploration and production can be worked out from the cumulative figures for the latter. If the proportion is assumed to have remained steady from one year to another between 1946 and 1959, the probable annual total for investment in exploration and production can be easily calculated with the aid of the exploration investment series. Data on investment in production in 1960-63 were obtained from the Chase Manhattan Bank (see table 26).

³⁶ Nacional Financiera, S.A., *La economía mexicana en cifras* (México, 1966).

³⁷ A. J. Bermúdez, *The Mexican National Petroleum Industry* (Stanford University Press, 1963).

³⁸ Pemex en cifras (México, 1963).

Table 26
MEXICO: PETROLEUM INVESTMENT, 1946-65
(Millions of dollars)^a

Year	Total investment	Investment in exploration	Investment in exploration and production	Exploration and production (percentages)
1946	23	5	7	32.0
1947	18	11	17	94.5
1948	36	13	21	58.5
1949	27	12	19	70.5
1950	42	14	22	52.5
1951	41	19	29	71.0
1952	43	19	30	70.0
1953	56	12	19	34.0
1954	69	11	18	26.1
1955	79	11	17	21.6
1956	72	11	18	25.0
1957	106	23	36	34.0
1958	129	29	45	35.0
1959	128	42	66	51.5
1960	210	41	100	42.5
1961	185	51	100	54.0
1962	155	48	81	52.0
1963	150	54	85	57.5
1964	209	—	—	—
1965	170	—	—	—

SOURCES: Nacional Financiera, S.A., *La economía mexicana en cifras* (México, 1966); PEMEX, *Pemex en cifras* (México).

^a The exchange rates used for converting Mexican pesos to dollars were as follows: up to 1948, 4.855 pesos per dollar; up to 1954, 8.65 pesos per dollar; for other years, 12.49 pesos per dollar.

Although data on the industry in Venezuela were plentiful, they had to be adapted for the purposes of this study. To begin with, the published figures on investment in exploration and production do not include expenditure on dry holes. Nor do they indicate how the investment is distributed between exploration and production.

The data supplied by the Ministry of Mines and Hydrocarbons on the unit cost of drilling and the number of metres drilled annually in both exploratory and development wells were used to fill in the lacunae.³⁹ The results are given in table 27.

Investment in exploration was calculated by assuming the capital disbursements in exploratory drilling would be 80 per cent of total expenditure on exploration⁴⁰ (see again table 9). Unfortunately, the only data to hand were for the years 1959 to 1963.

In order to keep the series homogeneous, the data supplied by the Chase Manhattan Bank,

³⁹ Ministry of Mines and Hydrocarbons, *Petróleo y otros datos estadísticos* (Caracas).

⁴⁰ "Capital requirements of petroleum exploration and methods of financing", part I (E/3580-E/C.5/20); J. M. McKie, "Market structure and uncertainty in oil and gas exploration", *The Quarterly Journal of Economics*, vol. LXXV, No. 4 (November 1960), p. 551.

Table 27
VENEZUELA: INVESTMENT IN EXPLORATION AND PRODUCTION, 1946-65
(Millions of dollars)

Year	Investment in fixed assets	Expenditure on dry development wells	Expenditure on dry exploratory wells	Total
1946	200	...	...	...
1947	214	...	...	...
1948	298	...	...	...
1949	182	...	...	...
1950	110	...	...	...
1951	164	...	...	...
1952	235	...	...	...
1953	203	...	...	...
1954	223	...	...	...
1955	256	...	...	...
1956	252	...	...	...
1957	390	...	...	...
1958	372	...	...	...
1959	287	17	24	328
1960	178	13	10	201
1961	138	13	13	164
1962	117	5	10	132
1963	131	5	12	148
1964	134	4	13	151
1965	163	...	...	...

which include expenditure on dry holes, were used. For the same reason, payments for new concessions in 1956, 1957 and 1958 were calculated from these figures, since they are not included in Venezuela's official statistics.

(b) *Investment coefficients*

In tables 28 to 31, these financial data are linked with the volume of production, so as to give a clearer picture of the economic situation of the Latin Petroleum industry compared with those of other areas.

Different methods of calculation were essayed for obtaining investment coefficients for the product/capital ratio over the short, the medium and the long term. The capital/production capacity ratio would actually be more representative, since it would show the full return on the investment. However, the difficulty of adjusting the concept of capacity to the data available made it necessary to use the first method for the production stage. There were no such drawbacks in the case of refining, so installed refining capacity can be taken as the denominator of the coefficient, so long as it is remembered that it differs slightly from real output.

Three types of coefficient are determined:

Type I is calculated by the following formula:

$$\text{Unit investment} = \frac{\text{Gross cumulative investment up to the year "N"}}{\text{Total output in year "N"}} \quad (1)$$

Coefficients of this type obtained from the data available (Brazil and Venezuela only in Latin America) are presented in table 28. Their main disadvantage for use in Latin America derives from the limited number and inadequacies of the data on total cumulative investment.

Type II is calculated as follows:

$$\text{Unit investment} = \frac{\text{Cumulative investment during the period "P"}}{\text{Total output during period "P"}} \quad (2)$$

This type of coefficient is illustrated in table 29. Data for calculating type II is available for most of the Latin American countries, but the figures for some of them are only approximate.

Table 30 contains the estimates of type III based on the following formula:

$$\text{Unit investment} = \frac{\text{Investment in the year "N"}}{\text{Increase in output in year "N"}} \quad (3)$$

This coefficient is based on information which is readily obtainable and gives an immediate

idea of the capital needed to launch, maintain and expand production.

It is liable to fluctuate widely, however, and sometimes becomes negative, mainly because the investment yields cumulative returns which take some time to materialize.

These difficulties can be overcome by modifying formula (3) as follows:

$$\text{Unit investment} = \frac{\text{Investment in the period "P"}}{\text{Increase in production in period "P"}} \quad (4)$$

The coefficients worked out for the Latin American countries on the basis of formula (4) are listed in table 31.

It will be noted that there are marked differences between countries with occasional variations within a single country over a period of some years. The former are due to differences in the natural conditions of the reserves, terrain and climate, which raise or lower the cost of exploration and drilling and lead to great disparities in the volume of yield per well or per linear metre drilled. Variations within one country indicate that production was at an early stage during the period under consideration or that new activities were embarked upon in the traditional petroleum-producing countries.

The pronounced variations in the coefficients, especially over the short term, are mainly due to cumulative effects which have a greater influence at one time than at another. They are also due to the fact that investment in a given year does not yield full returns until a certain time has elapsed. For instance, a large sum invested in increasing production capacity or even refining capacity in a particular year cannot be calculated in terms of returns until some time later.

In petroleum investment, the production (or refining) coefficients for a given year are undoubtedly more dependent on the cumulative process of earlier years than on the trend of investment in that one year. A glance at the coefficients will show how the unit investment required by the petroleum industry varies as the industry passes from the early to the intermediate and finally to the fully mature stage and as economies of scale can be obtained. The absolute value of the coefficients for integrated operations, both on the production side and in subsequent activities, is declining throughout the world because more efficient exploration and development techniques are being adopted (which compensate for the high costs of working on the continental shelf and the spread of complex methods of secondary

Table 28
GROSS INVESTMENT IN EXPLORATION AND PRODUCTION
COEFFICIENT TYPE I
(Dollars per cubic metre)

Year	Latin America	Middle East	United States	Venezuela	Brazil
1947	23.0	9.0	38.2	18.0	1,780.0
1950	27.0	8.2	55.7	20.0	882.0
1955	22.0	5.0	60.6	21.0	273.0
1960	31.0	5.2	77.0	27.0	64.0
1963	32.0	5.8	92.8	24.0	82.0

Table 29
GROSS INVESTMENT IN EXPLORATION AND PRODUCTION, 1946-63
COEFFICIENT TYPE II
(Dollars per cubic metre)

	1946-50	1951-55	1956-60	1961-63	1946-63
Latin America	3.1	0.7	3.2	1.9	1.9
Middle East	1.6	0.2	0.5	0.6	0.6
United States	6.7	3.5	3.7	7.1	4.8
Brazil	240.0	47.0	15.4	10.8	13.0
Chile .....	...	...	...	...	8.8 ^a
Colombia .....	...	...	...	4.7 ^b	4.4 ^c
Mexico	1.8	1.7	2.8	4.0	2.4
Venezuela	2.8	2.0	1.9	0.1	1.3
Latin America, excluding Venezuela .....	...	...	7.9	6.8	7.0 ^d

a 1961-65.
b 1960-64.
c 1955-64.
d 1956-63.

Table 30
GROSS INVESTMENT IN EXPLORATION AND PRODUCTION
COEFFICIENT TYPE III
(Dollars per cubic metre)

Year	Latin America	Middle East	United States	Brazil	Colombia	Mexico	Venezuela
1947	34.0	11.3	89.5	780.0	...	...	29.0
1950	14.0	3.4	100.3	200.0	...	...	11.0
1955	23.0	4.1	152.2	84.0	...	...	17.0
1956	22.0	14.3	211.6	77.0	34.0	41.0	14.0
1957	31.0	38.9	(—)	49.0	41.2	(—)	21.0
1958	(105.0)	6.5	(—)	38.0	119.5	60.5	(37.0)
1959	51.0	14.3	192.8	60.0	37.3	81.0	30.0
1960	64.0	6.4	74,700.0	47.0	81.0	208.0	37.0
1961	64.0	13.4	471.6	61.0	(—)	78.0	36.0
1962	27.0	8.5	462.2	(248.0)	(—)	146.0	7.0
1963	86.0	4.2	300.0	170.0	50.0	130.8	47.0

Table 31
INVESTMENT PER CUBIC METRE OF ADDITIONAL PRODUCTION
(Dollars per cubic metre)

<i>Year</i>	<i>Brazil</i>	<i>Chile</i>	<i>Colombia</i>	<i>Mexico</i>	<i>Peru</i>	<i>Venezuela</i>
1951-55	149.4	...	...	40.5	...	31.2
1956-60	48.9	...	22.2	82.0	...	43.7
1961-65	302.6	97.2	151.0	107.0	166.0	21.4
1956-65	94.9	...	98.5	96.5	...	35.6

recovery), production in low-cost areas is increasing, and supertankers, huge but easily operable, have made their appearance.

The coefficients given here merely indicate that the amount of investment required to raise production by one unit (m³ per year) or to replace production capacity in the integrated complex or production or refining operations was such and such up to a certain year, or during a given period or year.

When comparing coefficients of investment in production, another important point to bear in mind is that the amount or value of the reserves discovered through the use of the investment has not been computed. This is liable to change the figures considerably, since the published statistics show that present reserves in the Middle East are nearly nine times as much as in those of Latin America, twenty times those of Venezuela and eight times those of the United States.

All the tables show that the volume of capital invested in production is proportionately much larger in Latin America (or Venezuela) than in the Middle East, mainly because of the low capital/production capacity ratio in the Middle East and the high unit yield of the wells.

The production coefficients for Venezuela are lower than for Latin America in general. This is due to the economies of scale achieved through the high level of output in Venezuela, which provides almost 75 per cent of the region's total output and to average well productivity, which is far higher than in any other Latin American country or in the region as a whole.

The great difference between production coefficients in Brazil and in Venezuela derives from the fact that Brazil has invested large amounts of capital in exploration without achieving im-

mediate results in the shape of a production increase.

The coefficients in table 29, which reflect the marginal product/capital ratio, show the new capital required as new oilfields and reservoirs enter into production. In Venezuela and the United States, unlike the Middle East, investment requirements have been gradually stepped up because the marginal product has decreased with the extension of production to poorer areas where the mining risks are greater. In the Middle East the initial costs for the development of the oilfields were relatively higher, but unit investment was subsequently reduced, thanks to the economies of scale obtained.

Regional comparisons are rather more difficult to make with coefficients of the capital/refining capacity ratio (see table 32), since plant size and complexity varies immensely, as does the equipment for the different operations. Where there are large installations, as in the Middle East, Venezuela and Aruba and Curaçao, less investment is needed per unit of capacity. Moreover, when the refining plants are fairly simple, as in Venezuela, and Latin America in general, and in the Middle East, where cracking and reforming account for only a small proportion of total capacity, less unit investment is needed in refining. The figure is under 20 per cent in Venezuela and the Middle East, in contrast to more than 85 per cent in the United States.

Moreover, natural conditions do not affect refinery output as they do exploration and drilling. This explains why the coefficients for Latin America are lower than for the United States and Western Europe. But, if the equipment and volume of output were the same, unit investment in Latin America might well be higher because of the undeveloped state of the infrastructure.

Table 32
GROSS INVESTMENT COEFFICIENTS IN REFINING
(Dollars per cubic metre/day)

<i>Year</i>	<i>Latin America^a</i>	<i>Middle East</i>	<i>Western Europe</i>	<i>United States</i>	<i>Brazil</i>	<i>Venezuela</i>
<i>Coefficient Type I</i>						
1947	2,980	2,820	5,310	4,000	...	7,470
1950	3,610	3,240	5,500	4,510	...	9,670
1955	4,050	3,240	5,250	5,210	4,060	5,800
1960	4,230	2,860	5,400	4,840	8,450	4,480
1963	4,350	3,080	5,520	5,280	8,700	4,040
<i>Coefficient Type II</i>						
1947-50	5,050	4,820	5,610	6,250	...	11,000
1950-55	4,910	3,230	5,060	7,400	...	2,120
1955-60	4,600	2,640	5,615	6,160	12,820	3,600
1960-63	5,000	4,430	5,740	20,170	9,200	490
1947-63	4,850	3,240	5,520	6,590	11,050	3,700
<i>Coefficient Type III</i>						
1947	3,100	3,080	5,650	10,050	...	50,000
1950	2,530	73,500	...	69,100	...	1,990
1955	—	3,270	19,700	20,300	...	1,710
1956	5,310	(—)	4,410	5,890	...	3,170
1957	9,390	21,500	14,800	29,000	49,100	147,000
1958	2,840	2,130	4,559	9,940	6,050	1,660
1959	31,100	110,000	7,400	7,490	109,600	4,000
1960	3,360	9,360	4,210	15,100	8,070	1,300
1961	4,410	13,130	4,600	13,100	3,130	1,800
1962	3,500	1,980	9,800	(—)	...	1,440
1963	7,700	7,170	4,100	15,850	...	740

^a Including the Netherlands Antilles, British Honduras (Belize), Puerto Rico and Aruba and Curaçao.

SOCIAL POLICY AND SOCIAL CHANGE

The three papers that follow represent stages in a continuing dual programme of studies of social policies in Latin America and of the social change processes to which both social and economic policies must relate themselves. A number of products of this programme have already appeared in the *Economic Bulletin for Latin America* and in other ECLA publications. A general frame of reference for the study of social policy questions was set forth in "Social Development and Social Planning: A Survey of Conceptual and Practical Problems in Latin America" (*Bulletin*, Vol. XI, No. 1, April 1966), and an analysis of the interplay between social structural changes and the evolution of social programmes was presented in Part One, chapter II, of the 1967 *Economic Survey of Latin America*. Published papers dealing with specific sectors of public social action include "Social Service in Latin America: Functions and Relationships to Development" (*Bulletin*, Vol. XI, No. 1, April 1966) and "The Housing Problem in Latin America in Relation to Structural Development Factors" (*Bulletin*, Vol. XI, No. 2, October 1966); the paper below on social security has the same objective of relating the sector to the central issues of development policy. Community development, which is treated in another of the papers below, has been the subject of two earlier explorations published in the *Bulletin*: "Popular Participation and Principles of Community Development in Relation to the Acceleration of Economic and Social Development" (Vol. IX, No. 2, November 1964) and "Concepts and Methods of Area Programming for Community Development" (Vol. XII, No. 1, May 1967). For a number of years ECLA has taken an active part in studies and international meetings dealing with the complex relationships between education and development, and the findings of these studies have recently been revised and brought into closer correspondence with the over-all approach to social policy in *Education, Human Resources and Development in Latin America* (United Nations publication, Sales No.: (E.68.II.G.7).

ECLA studies of social change in Latin America preceded the initiation of studies of social policy and in their earlier stages sought mainly to explain the social requisites and concomitants of economic development. Two major conceptual and historical discussions of social change were presented to ECLA's tenth session in 1963: "Sociological Considerations on the Economic Development of Latin America" (E/CN.12/646) and "The Social Development of Latin America in the Post-War Period" (E/CN.12/660). (Both of these studies were published in Spanish by Ediciones Solar y Librería Hachette, Buenos Aires, 1964 and 1963, respectively.) In these works and in a series of demographic studies that were under way at the same time (see "The Demographic Situation in Latin America", *Bulletin*, Vol. VI, No. 2, October 1961; "The Geographical Distribution of the Population of Latin America", *Bulletin*, Vol. VIII, No. 1, March 1963; and "Rural Settlement Patterns and Social Change in Latin America", *Bulletin*, Vol. X, No. 1, March 1965), the phenomenon of rapid urbanization continually presented itself as a component and determinant of social change of the highest importance, and as a particularly promising problem area around which to organize a broad study of the factors that underlie present change processes and condition the applicability of social and economic development policies. The inadequacy for this purpose of previous conceptions of urbanization focused almost entirely on the demographic and ecological aspects also became evident. The paper below entitled "The Urbanization of Society in Latin America" is a preliminary attempt to formulate a more adequate conceptual framework for the study of urbanization; it is now being followed by more detailed analyses of its main themes and by the testing of its hypotheses through studies of a few countries of the region that are presumed to represent different levels or stages of urbanization.

SOCIAL SECURITY AND DEVELOPMENT: THE LATIN AMERICAN EXPERIENCE

INTRODUCTION

Few issues of public policy in Latin America today encounter such wide apparent consensus as the shortcomings of the social security systems.¹ The Kafkaesque trials of the citizen seeking his rights from the social security bureaucracy and the plight of the retired employee as inflation erodes the purchasing power of his pension are described in similar language in conservative, reformist and revolutionary periodicals. Consensus on the desirability of social security is equally wide; for the most part, even the most exasperated critics take it for granted that social security has become a part of national life, that somehow and eventually it will be reformed and extended to ever wider strata of the population. Laws providing new social security benefits are supported by parties of the right as well as the left. Social security costs continue to edge upward in relation to the national product; in a few countries these costs have reached 12 per cent or more of the product and in many others they are in the same range (2.5 per cent) as the sums spent on education, the social sector making the largest *direct* claim on public resources.²

It is surprising to find that this area of public social action, in spite of its prominence in the expectations of the average wage-earner, the enormous sums channelled through it, and its complex influence on the labour force, has been practically untouched by the development

¹ The delimitation of "social security" in Latin America presents various difficulties. On the one hand, certain types of protection (e.g., workmen's compensation for accidents, indemnification for dismissal) are commonly treated as direct obligations upon the employer. On the other hand, as will be explained below, the social security institutions commonly engage in a variety of activities (health protection, housing, low-cost credit, social welfare, etc.), some of which fall outside a strict definition of social security and overlap with activities of other public institutions. For present purposes, it will be necessary to take into account what the social security institutions actually do, as well as their degree of correspondence to "social security" conceived as a system of protection for defined population groups against defined contingencies.

² The International Labour Office, in *The Cost of Social Security, Sixth International Inquiry, 1961-1963*

planning movement of recent years. All of the published plans and investment programmes of the Latin American countries specify social objectives, most generally in the sectors of education, health and housing, but often also in income distribution, employment, food consumption, water supply and sanitation, with occasional mention of clothing and footwear consumption and of community development. Only one or two plans discuss social security.³ Sectoral planning units linked to the national planning agency, such as most countries now possess for education and health, do not exist for social security. Social security was not included among numerous social objectives specified in the 1961 Punta del Este Charter, and it was not until the June 1967 meeting of the Inter-American Economic and Social Council that a resolution was passed including among the objectives of

(Geneva, 1967), presents the following data for twelve Latin American countries (see comparative table 2):

RECEIPTS AND EXPENDITURES OF SOCIAL SECURITY SCHEMES
IN PERCENTAGE OF GROSS NATIONAL PRODUCT (1963)

	Receipts	Expenditures	
		Total	Benefits
Bolivia	4.3	3.4	2.9
Chile	11.1	9.6	7.9
Colombia	2.0	2.0	1.9
Costa Rica	3.3	2.0	1.7
El Salvador	2.3	2.2	2.1
Guatemala (1962/63)	1.8	1.8	1.7
Mexico	2.7	2.3	1.8
Nicaragua (1962/63)	2.2	1.7	1.6
Panama	6.0	4.4	4.1
Paraguay	3.0	2.3	2.0
Uruguay	13.3	12.8	11.8
Venezuela (1962/63)	2.4	2.4	2.3

³ The content of the plans and programmes is summarized in chapter VIII of ECLA's *Economic Survey of Latin America, 1964* (United Nations publication, Sales No.: 66.II.C.1). The only national plan to include a chapter on social security seems to be that of Uruguay, published after the above summary was made, and even here social security is allotted one of the briefest chapters in a multi-volume work. ("*Reforma de la Seguridad Social*", in tomo IV, *Plan del Sector Público, Plan Nacional de Desarrollo Económico y Social 1965-1974* (Montevideo, Comisión de Inversiones y Desarrollo Económico, 1965).)

the Alliance for Progress "the development of a social security policy integrally co-ordinated with the plans of economic and social development".

In the other social sectors, the inclusion of social security in published plans and the organization of sectoral planning machinery has been far from equivalent to effective sectoral planning, let alone incorporation into a really comprehensive strategy for the allocation of resources. Social and economic chapters have been juxtaposed in the plans rather than integrated. Relations between sectoral and over-all planning machinery remain ill-defined. In most of the social sectors, however, it is evident that both sides feel a need for inclusion and integration. The planners have come to see education and health as important components of development strategy as well as peremptory claimants to major shares of public resources. The educators and public health specialists feel a real need for help from the planners toward the attainment of greater internal efficiency, and also a real need for a voice in planning so as to protect their claim to a share of public resources. The resulting dialogue shows good promise of practical results. Other social sectors such as housing are at earlier stages of the same process.

In social security up to the present neither the planners nor the sectoral administrators seem to have been particularly anxious for dialogue. One might surmise that planners feel that they have enough problems without tackling a sector characterized by administrative autonomy and compartmentalization, the focus of strong and complex political pressures, and the preserve of well entrenched bureaucratic interests. Moreover, while the resources handled by the social security systems are enormous and of obvious importance for development policy, only a small fraction comes directly from the pool of public resources that the planners must try to allocate. From the other side, the social security administrations and the organized social forces that have been able to wring disproportionate benefits from the systems cannot help being aware that subjection to planning would mean painful changes, the cutting back of special privileges and hypertrophied bureaucracies, and new principles for the obtaining, investing and distributing of social security resources—matters over which the national governments now exert influence mainly through the negative device of evading their own legally required contributions. Meanwhile, the danger of upsetting the compromises on which their support is based and the continuing electoral

appeal of social security promises has made the national political leaderships reluctant to intervene in the direction of rationalization.

In view of the costliness of the social security systems, the popular discontent with their functioning, and the irresistible pressures toward universalization, investigations of their problems and proposals for planning and reform were bound to come, but they have come mainly from directions other than the planning movement. Individual economists and social policy specialists have for some years criticized the systems and proposed remedies.⁴ In a few countries, advisory bodies on social security have been set up by the national executive.⁵ The international agencies concerned with technical advice and financial aid—the International Labour Organisation (ILO), the Organization of American States (OAS), and more recently the Inter-American Committee on the Alliance for Progress (CIAP)—after many years of promotion of social security are now warning with increasing insistence that the systems as they are evolving are neither equitable nor viable. The main symptoms of crisis are sufficiently documented in recent reports of these agencies, although information on social security is remarkably fragmentary, tardy and of doubtful comparability, considering that social security institutions by their very nature might be expected to give a good deal of attention to statistics, record keeping and cost accounting.

The present paper will deal very briefly with the historical evolution of social security in Latin America and with the present symptoms of malfunctioning, relying mainly on the documentation prepared by the various international agencies.⁶ It will then turn to the processes of

⁴ For example, Dr. Hernán Romero, *La crisis del seguro social y la reforma de la salubridad* (Santiago, Ediciones de la Universidad de Chile, 1958); Anibal Pinto, "Alternativa para una reforma de los sistemas convencionales de Previsión Social", *El Trimestre Económico*, No. 111 (July-September 1961); and Humberto Vieites Novo, "Sistema de previsión social del Uruguay", *Revista de la Facultad de Ciencias Económicas y de Administración de Montevideo*, No. 22 (June 1963).

⁵ In particular, Chile's Comisión de Estudios de Seguridad Social which in 1963 published an Informe sobre la *Reforma de la Seguridad Social Chilena* in several volumes, and Argentina's Comisión Asesora Permanente de Seguridad Social.

⁶ The most extensive information on these symptoms is to be found in a report prepared by the International Labour Organisation for its Eighth Conference of American Member States (Ottawa, September 1966): "Papel de la Seguridad Social y del Mejoramiento de las Condiciones de Vida en el Progreso Social y Económico". A brief chapter entitled "New Orientations in the Field of Social Security" in the OAS, *Social Survey of Latin America 1963-64* reached similar conclusions, as did a

social change and the pressures from within the social structures that have more to do with the lines of growth of all the sectors of public social action than do official policies and plans. Finally, it will discuss the functions that might be expected of social security within a really comprehensive and vigorous strategy for development, and will suggest some requisites if social security is to be linked with planning in more than a ritualistic sense.

2. HISTORY

The evolution of the social security systems in Latin America has taken two main forms. Although most of the problems the systems now face are common to the region, their relative importance is affected by the age of each system, by the lines of its evolution, and by the evolution of the national economy.

(a) The first countries of the region to embark on social security were those of the "Southern Cone". Argentina, Chile and Uruguay began in the nineteen-twenties or even earlier to establish separate funds (*cajas*) for specific categories of employees and workers, each with its own legally defined sources of income, conditions of entitlement, range of benefits, and administrative apparatus. These systems have grown by accretion until most of the economically active population is now covered, at least in principle, rural workers, domestic workers, and the self-employed being quite recent additions. The proliferation of separate funds has been followed but not replaced by the setting up of broad institutions covering most wage-earners not covered by pre-existing funds. The enactment of legislation regulating the working conditions and organizational rights of specific categories of employees and workers has followed a similar course.

While these countries show many dissimilarities, by the nineteen-twenties they were all set apart from the rest of the region by their rela-

tively high degree of urbanization, by the emergence of urban middle classes as decisive political forces, and by the growth of trade union movements of some importance. The social security and labour protective initiatives derived from the conceptions of social justice held by the new political movements; they also represented promising means of strengthening the following of these movements among public and private employees and of winning over the organized workers from more revolutionary appeals. It deserves emphasis that Chile and Uruguay began to build up their social security systems well in advance of most countries of Europe and North America; in all three countries income levels were lower and the proportion of industrial wage earners much smaller than in the European countries that pioneered in social security.

During the nineteen-twenties it would have seemed reasonable to expect that the income levels of these three countries would continue to rise, that incomes would become more evenly distributed, and that the ability of the economies to support social security systems would be strengthened. In fact, the countries have shared with the rest of Latin America the traumatic effects of the depression of the nineteen-thirties and the vicissitudes of export booms, import shortages and import-substitution industrialization that added up to apparently satisfactory rates of recovery and economic diversification up to the early nineteen-fifties. Since then, they have deviated from most of the other Latin American countries in the sluggishness of their economies. The reasons have been debated in an extensive literature and cannot be assessed here.

One feature of this evolution has been the gaining of ability by population strata much wider than in the rest of the region to enforce demands for a larger share of the national product and for specific services from the public sector, through organizational strength and the vote. The ability of the political leadership to reconcile these demands and combine them into a whole compatible with dynamic development has been limited. Albert Hirschman has pointed to the function of the high rates of inflation characteristic of these countries since the nineteen-fifties or earlier as devices permitting the authorities to avoid direct confrontation between the size of resources and the size of separate claims on them.⁷ Up to a point, the piecemeal growth of social security in response to pressures and competitive political appeals

document entitled "*Pública y Administración de la Seguridad Social*" (CIAP/331) submitted by the Inter-American Council on the Alliance for Progress to the 1966 Meeting of the Inter-American Economic and Social Council at Buenos Aires. In 1962 the International Bank for Reconstruction and Development published a study, *Financial Aspects of Social Security in Latin America*. A document by Franco Reviglio, "The Social Security Sector and its Financing in Developing Countries", issued by the International Monetary Fund (IMF) for internal use, contains a good deal of information on Latin America. The legal provisions governing the national social security system are summarized in a *Manual de Instituciones de Seguridad Social*, published by the Secretaría General, Comité Permanente Inter-Americano de Seguridad Social, México 1967.

⁷ See chapter 3 of his *Journeys to Progress* (Washington, Twentieth Century Fund, 1963).

seems to have served the same purpose, while the inflation has furthered a complicated juggling of the burden of costs.

Demographic trends have also set Argentina and Uruguay apart from the rest of the region. Declining birth rates and rising life expectancies have brought about age distributions closer to those of Western Europe than to the Latin American average, with relatively high percentages in the upper age groups. Chile seems to be at an earlier stage of this demographic transition. The cost of retirement pensions would thus have reached fairly high levels, even if these had been restricted to the age groups over 60 or 65.

In Brazil, the evolution of social security, beginning in the nineteen-thirties, has been rather similar, although the greater dynamism of the Brazilian economy and the wide disparities between one internal region and another in levels of income, degrees of urbanization and size of the strata able to exert effective political pressure introduce important differences, and the percentage of total population covered remains much lower than in the first three countries named.⁸

During 1966 and 1967, Argentina, Brazil and Uruguay have all been forced by financial difficulties to initiate consolidations or curtailments in social security. In Chile, the two most recent Presidents, Jorge Alessandri and Eduardo Frei, have both been strong supporters of social security reform. President Frei's annual message to Congress of May 1966 includes a particularly forceful statement on the urgency of change and the obstacles in its way:

"My Government has decided to tackle the integral reform of social security. The multiplicity, disparity, privileges, omissions and injustices of the present social security laws not only constitute a permanent source of insecurity and unrest, but also a paralysing obstacle to the carrying out of the plans of economic development and social reform in which we are embarked.

"The proliferation of laws has reached incredible extremes, with legislation in favour of very small groups and sometimes of a single person, contradicting the whole spirit of universality that inspires modern social security and confusing its objectives with those of social assistance and public welfare.

⁸ Social security contributors are estimated in the IMF document cited in footnote 6 to have amounted to 6.5 per cent of the total population of Brazil in 1962, against 40.6 per cent in Uruguay (1962), 27.4 per cent in Argentina (1961), and 22.9 per cent in Chile (1960).

"This is a young country. More than 50 per cent of our population is under 21 years of age; in Europe less than 30 per cent. If in addition the trend is to reduce the active population so as to support an enormous mass of premature pensioners who in many cases end up competing in the labour market with those who are trying to enter the country's productive force, one cannot see how we are going to be able to endure.

"I must tell the nation something that is no novelty, but that is a definitive fact: this system will lead inevitably either to the bankruptcy of the social security funds or to the bankruptcy of the country. It is impossible to have such a large youthful population and at the same time such an extensive population of pensioners. No country in the world can support a system such as this.

"The Ministry of Labour and Social Insurance, with the collaboration of other bodies, has just now elaborated a general social security law, the objective of which is to modify integrally our present system.

"I am conscious that a project of such importance is going to call forth opposition even stronger than in the case of the agrarian reform project. In social security questions, all sectors agree that the present norms are unsatisfactory and unjust; but when the moment of losing privileges is at hand, violent rebellions arise and all sorts of pressures come into play."

The general law announced by President Frei in 1966 had not yet been presented to Congress at the beginning of 1968, and the process of piecemeal legislation had not been halted, although Chile has made a good deal of recent progress in rationalizing the separate funds and in providing up-to-date statistics.

(b) Most of the countries that embarked on social security during the nineteen-thirties and nineteen-forties enacted legislation setting up a single institution to provide limited benefits to certain categories of urban workers and employees for a beginning, but with the intention of gradually expanding coverage in respect of occupations, geographical areas and types of coverage; such expansion by stages was generally provided for in the basic legislation itself. Pre-existing pension systems for public employees and the armed forces generally retained their separate administrations. During this period, the standards and recommendations adopted by the International Labour Organization and other international agencies exerted considerable influence, and the countries drew

on expert advice from these agencies. The most important social security systems established along these lines are those of Colombia, Mexico and Venezuela. While these countries were urbanizing rapidly and industrializing somewhat less rapidly, the urban middle strata and wage earners constituted relatively small proportions of total population during the formative period of social security, and political pressures for expansion were weaker than in the first group. During the past two decades the growth of national product has been considerable, but its distribution has been extremely uneven. The numbers of urban wage earners and employees in the "modern" sectors of the economies have grown rapidly, but the gap between their incomes and those of the remainder of the population seems to have widened; except in Venezuela, the rural population is still a majority. The social security systems have been able to expand only to a limited extent beyond the categories of urban workers and employees originally covered; the growth of the systems has depended mainly on the growth of these groups and on the provision of more extensive benefits to them.⁹

Most of the smaller countries of the region also took the first steps toward social security through general enabling legislation, at intervals from the nineteen-thirties to the nineteen-fifties. Although trends in the individual countries have since been quite diverse, the relatively limited degree of urbanization and extent of urban salaried employment has restricted the expansion of social security in most of them. In several instances, the provision of social security is divided between a fund for public employees or public and private employees and a fund for some categories of urban workers, the latter offering much more limited benefits than the former.

3. PROBLEMS

The crises of the social security systems at present involve their financing, their administration, their capacity to meet their legal obligations for benefits and their capacity to extend protection to wider population strata:

(a) Estimation of the costs of social security is complicated by the lack of internal co-

⁹ Social security contributors are estimated to have constituted 5.0 per cent of the total population of Mexico in 1963; 4.1 per cent of the population of Venezuela in 1961; and 3.2 per cent of the population of Colombia in 1964. Peru, with a dual social security system for employees and workers, had a coverage of 7.0 per cent in 1961.

herence of the larger systems and by the discrepancies between legal obligations and actual payments by employers, workers, and the State. It is evident, however, that in the countries with systems of the first type they have reached levels found elsewhere in only a few European countries. The ratio of combined employer-employee contributions to the wage bill in covered occupations had climbed, according to one estimate, to 42-49 per cent in Chile, 39-45 per cent in Uruguay, 12.5-33 per cent in Argentina, and 22 per cent in Brazil. Contribution rates in the second group of countries are much lower, but in a few small countries with quite restricted occupational coverage they have reached anomalously high levels: in Bolivia 35.5 per cent of the wage bill and in Paraguay 19 per cent.¹⁰ Employer contributions generally amount to two-thirds or more of the above totals. The economic implications of contributions on this scale and the real final distribution of the burden raise complex questions. It can be assumed that a large part of the burden is shifted to the general public in the form of higher prices for goods and services produced in the sectors covered by social security. It can also be assumed that, to the extent that employers cannot pass on the higher labour costs, social security contributions of these dimensions constitute important stimuli towards the adoption of capital-intensive techniques and hinder the absorption of the rapidly growing urban labour force. At the same time, a very large part of the burden is evaded, often by collusion between employers and workers; increased contribution rates forced by the chronic deficits of the systems only increase the incentives to evasion. Moreover, under inflationary conditions private employers, by delaying payment of their own contributions and those of their workers to the social security fund are able to add significantly to their working capital with payment of only nominal interest on the "loan". In Argentina in 1960/61 employer evasion and delays in payments subtracted an estimated 47 per cent from the total that should have been collected. In some countries this practice has become institutionalized through the periodic passage of laws permitting delinquent employers to consolidate their debts to the system and pay them in quotas over several years. Prompt payment thus tends to be penalized and more

¹⁰ The above totals were derived from various sources by the IMF document cited in footnote 6. Other sources differ to some extent, depending on their delimitation of "social security", but do not significantly alter the order of magnitude.

and more employers wait for a consolidation law to regularize their situation.

(b) In a good many countries, the State itself has succumbed to the same temptation as the private contributors and is in arrears on three kinds of payments: on direct obligations for subsidies under the tripartite systems of financing, on obligations as an employer to contribute sums related to the salaries of public employees, and also on contributions withheld from these salaries. Such arrears, sometimes covered by issuing government securities, are particularly large in some of the countries in which inflation is chronic. In Argentina in 1963, the increase in the Government's non-consolidated debt to the social security sector was equivalent to more than 30 per cent of social security receipts, and in Brazil it amounted to nearly 28 per cent.

(c) The social security systems were originally expected to meet benefits from the returns on investment of their reserves. Such returns have generally been very low, and in the systems of the first type, inflation has practically wiped out the reserves themselves; one reason has been the obligatory purchase of bonds covering government budget deficits. In the maturer systems, income from contributions of the active population no longer produces a significant surplus for investment; the system has to depend almost exclusively on such contributions to meet its current obligations. In Uruguay between 1957 and 1965, the percentage of social security income from State contributions and special taxes fell from 10.9 to 6.4 and the income from interest from 7.4 to 1.5, while contributions of active insured rose from 77.7 to 90.3.¹¹

(d) It is generally agreed that administrative costs are excessive, although information on them is only fragmentary. The International Labour Organisation has pointed out that even where such costs are limited by law "certain devices have been adopted to hide some of these costs, imputing them to other accounts".¹² In Chile, the Comisión de Estudios de Seguridad Social concluded that in 1959 administrative costs amounted to 13.9 per cent of social security income, or 14.7 per cent of the amount distributed in benefits of all kinds; the ratio of administrative costs to benefits in a good many other systems of both the main types would probably be higher, mainly as a result of the pressures,

to be discussed below, for inflation of public employment. The result has been not only an important diversion of resources away from the supposed beneficiaries of the systems, but also extreme inefficiency in their functioning. Lack of prior qualifications among the functionaries has usually not been offset by training on the job, and in spite of their numbers adequate records are not kept. (An ILO report concludes pessimistically that, without basic administrative reforms, the recent introduction of electronic data-processing in some of the systems will only increase the expense and confusion.)

(e) The circumstances described above mean that the maturer systems are unable to meet in full their obligations to the population already covered for benefits that have legislated for without any regard to actuarial realities or foreseeable resources. Even among the younger and smaller systems, a few seem to have reached that point. Frustrated applicants blame the long delays in the processing of benefits on bureaucratic lethargy and incompetence, but it is apparent that several of the systems are forced to use delays, evasions and dilution of the quality of services as a means of bringing the real level of benefits down to the level of resources. The ILO survey cited above one institution with a waiting list for retirement pensions of 83,000 and an average processing period of more than three years; prompt action on applications would mean immediate bankruptcy. Such situations force the applicants to compete for special treatment through the intervention of politicians or paid intermediaries. The Director of the Chilean Servicio de Seguro Social recently complained that some pensioners obligate themselves to pay up to 40 per cent of their first year's pension to illicit intermediaries who promise to expedite processing. Inflation has also functioned to ease the burden upon the systems; periodic readjustments practically never restore the original purchasing power of the pensions except for a few privileged categories of pensioners.

(f) All of the countries have endorsed the objective of gradual extension of social security to the whole of the low-income population, and it is generally agreed that without such an extension social security constitutes either a redistribution of income of limited importance within the lower-middle-income strata or an inadmissible redistribution of income towards these strata at the expense of the needier parts of the population. The two main types of social security system present different deficiencies in regard to capability of reaching this objective:

¹¹ *Plan Nacional de Desarrollo Económico y Social*, op. cit.

¹² "Papel de la Seguridad Social y del Mejoramiento de las Condiciones de Vida en el Progreso Social y Económico", op. cit.

(i) In the maturer systems of the first type, rural workers, domestic servants, self-employed, etc., have in recent years been included. Difficulties in collection of contributions from these groups and their employers are naturally greater, and capacity to contribute much lower, than in the cases of the employees and workers previously covered. It can be assumed that the very wide gap between the size of these groups and the number of social security contributors among them cited by the International Labour Organisation for years around 1960 has since narrowed somewhat, but effective coverage remains far from universal. Moreover, the systems have built-in inequities that are accentuated by the new accretions. A distinction between "employees" and "workers" is particularly clear-cut in Chile, where it reflects an exceptionally wide gap in average incomes between the two categories. According to calculations made by the Comisión de Estudios de Seguridad Social and since cited repeatedly, a million and a half workers affiliated to the largest social security fund in 1959 received 33 per cent of total social security benefits provided by the country, while 550,000 employees affiliated to other funds received 59 per cent.¹³ (Miscellaneous funds accounting for 8 per cent of benefits are excluded from the calculation.) In practically all of the countries certain funds or pension schemes (for officers of the armed forces, for members of legislative bodies, for bank employees, for railroad workers, etc.) command resources far superior to the others. The newer groups covered have either been added to the workers' social security institution or given a new fund of their own (e.g., the fund for rural and domestic workers in Uruguay). In the former case, the already inadequate funds of

the insured workers will have to be spread much thinner. In the latter case, the amount of protection that can be financed from the contributions of workers whose incomes are close to the subsistence level is bound to be small. If social security is to become a reality for the newly covered groups, the State will have to assume directly a large part of the cost, at a time when the State is unable to meet in full its previous social security obligations.

(ii) In the countries with systems of the second type, the legislative basis for planned expansion is more satisfactory and inequalities in social security rights within the systems are less complicated and less entrenched. However, the percentages of national population engaged in agricultural labour, self-employed, or intermittently employed in urban marginal occupations are a great deal larger than in the first group and their per capita incomes are lower. At their present stages, the social security systems are particularly vulnerable to the charge that they are protecting urban minorities at the expense of the whole population, but the possibility of expanding contributory systems to the majority seems to be nil.

To sum up, the systems of the first type are facing crises of inclusion, those of the second type crises of exclusion.

4. STRUCTURAL SOURCES OF THE PROBLEMS

The difficulties summarized above are well known, and have been sufficiently documented in national and international reports not to require detailed discussion in a brief survey such as the present. The Chilean system, in particular, has been the subject of exhaustive studies and reform proposals since the nineteen-fifties. The fact that reforms are slow in coming or limited to details, and that piecemeal legislative granting of new benefits, hand-to-mouth financing and tortuous administrative procedures persist is certainly not due to unawareness on the part of governments or the public.

The explanation must be sought in present processes of change in the economic and social structures of Latin America. Since 1961, when the ideal of planned and harmonious economic and social development was embodied in a series of commitments agreed to by the Governments of Latin America, economic growth has continued to be fitful and very unevenly distributed between countries, economic sectors and internal regions. Social change has been rapid and pervasive but subject to striking contradictions and discontinuities. The following phenomena are particularly conspicuous facets of the over-all

¹³ The Comisión de Estudios de Seguridad Social also made an interesting calculation of the percentage distribution of direct costs, of real costs, and of benefits of social security in 1959. This calculation indicates that workers met about 85 per cent of the real costs of the benefits they received, while employees, with much higher incomes and benefits, met only 74 per cent:

	Direct costs	Real costs	Benefits
Workers	6.0	21.8	25.6
Employees	14.7	31.9	43.0
Employers	43.7	15.8	—
Receivers of income from real estate and enterprises	—	25.3	—
Public treasury	30.8	—	—
Community in general* ..	4.9	4.9	4.4
Costs of administration and surpluses			27.0

* Costs to community in general represent certain earmarked taxes not entering into the general revenue.

process of change: first, rapid and concentrated city growth, accompanied by a transformation of patterns of urban life under influences from industrialized high-income societies outside the region; secondly, rural unrest associated with stagnation of incomes and employment opportunities, widening rural contacts with urban forces of change, and weakening of the traditional systems of power relationships; thirdly, incapacity of the dynamic sectors of the economies to offer employment to a labour force with high rates of growth and low levels of qualification; fourthly, emergence and rapid growth of geographically and occupationally mobile "marginal" population strata with increasingly insecure relationships to the national systems of production, consumption, and political participation.¹⁴

The objectives agreed upon in 1961 and subsequent years included more equitable income distribution, with special emphasis on shifts in the incidence of the tax burden; agrarian reform; and full employment. Objectives of this kind imply far-reaching changes in power relationships and in the character of economic growth. They also imply strong and consistent political leadership backed by administrative structures able to cope with difficult new functions. It is not surprising that tangible progress in these areas has been limited or that the passage of legislation and the setting up of new administrative and planning machinery remain the chief reasons for optimism that can be cited by the regional bodies responsible for assessment of progress.

The commitments of 1961 also included specific targets in a number of sectors of public social action. Programmes in all of these sectors could present strong cases for their indispensability to the cause of development itself, under the conception of "human resource development", and they also responded to strong popular demands. Objectives could be formulated in simple and politically appealing terms, and expansion of social programmes would not expect to meet the tenacious resistance sure to be encountered by agrarian reform and fiscal reform. It thus might be expected that the former would advance more rapidly and smoothly than the latter.

In practice, trends since 1961 have been quite irregular, both between countries and between sectors of social action. For the region as a

¹⁴ These questions are discussed in some detail, in ECLA's *Economic Survey of Latin America, 1967* (in the press).

whole the social programmes, taken together, seem to have barely maintained their previous share of the product in relation to other forms of public and private expenditure. The most impressive quantitative gains have been made by education, in which upward trends visible long before 1961 have attained a momentum making the educational systems key factors within present processes of social change, both as objects of pressures from within the societies and as sources of pressures upon the societies. The most disappointing experiences have been in housing, in which publicly financed programmes of low-cost construction and stimulation of private initiative have proved almost irrelevant to the needs of the growing urban low-income population, so that uncontrolled shanty town expansion now threatens to overwhelm the cities. In health, the easier gains associated with the control of mass diseases have already been realized, and the relatively expensive area of protection represented by water supply and waste disposal systems is progressing, under the stimulus of large-scale external aid. Increasing life expectancies have thus far not brought about any significant increase in the percentages of population in the upper age groups in most of the countries because of continuing high fertility rates, but the fact that larger numbers of persons of all ages are now surviving under conditions unfavourable to their general levels of health and in urban settings that make them aware of the existence of modern medical services means that the demand for a wide range of curative services is rising rapidly—a trend that has important implications for social security. In regard to food consumption, although targets have been set forth in a number of national plans, public action remains fragmentary and self-contradictory, unable to reconcile pressures to raise agricultural prices and pressures to keep urban food prices low. Although reliable information is scarce, it is probable that the diet of large low-income strata has deteriorated in recent years.

If one goes beyond the rather ambiguous indications of trends afforded by statistics that represent national averages, it is evident that the evolution of programmes in each of the social sectors has been influenced only to a limited extent by the publicly formulated objectives of social justice and human resource development. Rather, the lines of growth are the resultant of diverse pressures emanating from within the societies. This resultant cannot coincide in full with the aspirations of any one of the groups exerting pressure, or with the publicly

endorsed objectives of the programmes. The pressures come from the following directions:

(a) The growing bodies of professionals and public functionaries employed in the social programme. Each social sector has its own internal momentum and aspirations toward a larger share of public resources. This momentum derives in part from the natural convictions of sectoral specialists—backed by international recommendations and technical assistance of the overriding importance of their own programmes. It is hard to envisage the possibility that sectoral allocations can be too large, when the unmet needs are so obvious. At the same time, the rapid expansion of secondary and higher education and the limited capacity of the private sector to provide jobs meeting the expectations of educated youth have intensified previous pressures for expansion of public employment. All of the social programmes have suffered from a disproportionate growth of administrative posts in relation to staff providing direct services. In social security, administrative autonomy, sources of income not subject to central budgetary control, and political appointment of top functionaries have sometimes opened the way to padding the staffs on the basis of party recommendations rather than qualifications and have enabled the functionaries to determine their own share of social security resources without effective external control. According to a Spanish proverb "*El que parte y reparte se queda con la mejor parte*", that is, "He who divides and distributes keeps the lion's share for himself". (In an extreme case, an important part of the reserves of one social security institutions were "invested" during a period of inflation in low-interest loans for housing restricted to the functionaries of the system.) Except in the countries with the older and larger social security systems, the functionaries constitute rather small percentages of the total number of public employees, and as pressure groups do not compare in importance with the teachers and public health employees. Their influence on the passage of new social security legislation seems to have been minor, but they undoubtedly have considerable ability to block reorganization and planning of the systems. Another kind of "internal" momentum has come from the legislative bodies, some of which have been remarkably generous in voting benefits to their own members and the better organized electoral blocs.¹⁵

¹⁵ President Jorge Alessandri of Chile stated in November 1962, after congressional passage over his veto of a bill granting special concessions to employees of public autonomous agencies:

(b) The social strata constituting the principal clienteles of the educational, housing, health, social security and social welfare services up to the present.¹⁶ These strata have been almost entirely urban, made up of employees and workers belonging to the "modern" sectors of the economies and with incomes enabling them to meet some part of the real costs of the services (through social security contributions, medical fees, housing amortization payments, maintenance of children during prolonged schooling and purchase of school supplies). While the characteristics of these strata vary widely according to national rate and stage of urbanization and industrialization, they seem to be growing not only in absolute numbers but also in relation to total population in all except a few small countries with stagnant economies. Their aspirations, under the influence of their own rising levels of education and the consumption patterns and stimuli imported from the high-income countries of North America and Western Europe, are increasing faster than their abilities to satisfy them—a trend supported by their concentration in the larger cities. At present, they are threatened on the one hand by rising costs of the services and durable consumer goods they consider indispensable to their status, and on the other by rising taxes, since in practice the shift to progressive direct taxes strikes the salaried groups earlier and

"It is an undeniable fact that the social security bodies are increasingly transforming themselves into entities designed to serve those who work in them rather than to meet the needs for which they were created, that is, to serve their contributors . . . In regard to increases in benefits for the public sector, all kinds of laws originating in Congress have been multiplying. This situation is distorting our social security system more and more, and also contributes to the weakening of its financial capacity to an extremely dangerous degree. . . .

"The interest-group of employees of the social security funds constitutes an important voting bloc, much less numerous indeed than that of the contributors, but in contrast to the latter, who cannot organize themselves or make themselves heard jointly, it is organized in such a way that it is a clearly identifiable group with its own weight in the electoral struggles. It is in this way that new privileged minorities are being created whose gains do not derive from their superior competence or from initiatives to promote the general welfare, but in many cases from the violation of the rights and interests of more numerous groups."

¹⁶ It might be expected that the social welfare services would concentrate upon the neediest strata of the urban population. To a very large extent, however, these services have evolved within social security systems, housing programmes, modern industrial enterprises and special programmes for public employees, the armed forces, etc. They have thus dealt mainly with social strata having relatively secure jobs and incomes rather than with the marginal population.

harder than the upper-income strata. Their capacity to absorb assistance from the public sector in meeting their social needs, particularly in education and housing, is practically unlimited. Their views of social "rights" are influenced by comparison of their lot with that of the middle classes of other regions, much more than by comparison with the low-income strata of their own countries. Except among the youth, prior to absorption into employment and family formation, their willingness to make sacrifices in the name of social solidarity or development is small. As was previously indicated, the salaried or "dependent" component of these middle strata is now the main beneficiary of the social security systems, after the functionaries of the systems themselves, but with wide inequalities by occupational categories and with nearly universal dissatisfaction deriving from the gap between expected and real benefits. The past domination of social security by salaried employees, with job security but little capacity for individual savings, made it natural for the systems to concentrate on retirement pensions, with legal provisions as to pensionable age and years of service for entitlement becoming steadily more generous. The aspirations of the independent middle strata have been summed up rather cruelly in the following terms: "*nacer becado, vivir empleado, morir jubilado*", i.e., "to be born with a scholarship, live on a salaried job, die on a pension." In public employment, relative advantages in pensions and years of service required for entitlement seem often to be the main considerations behind choices of public careers.¹⁷ For a time, the low ages for retirement suit the interests of the younger employees, by opening vacancies and opportunities for promotion, and by holding out the dream of early economic freedom. As the functions of the public sector expand, the burden of retirement pensions for individuals in their forties and fifties becomes more formidable; pension for school teachers,

¹⁷ The struggle of public employees for pension privileges seems to have been deeply rooted in some of the countries long before the introduction of contributory social security. In a work published in 1876, the Uruguayan statesman José Pedro Varela stated in a denunciation of chronic budget deficits: "We see among us men in full vigour of age and health receiving fat retirement pensions; others that have served the nation only a few years and who have nevertheless been pensioned, counting as years of service years passed abroad or in other occupations, on the pretext that during these periods they were unjustifiably separated from their posts. The widows reproduce themselves with astounding fertility . . . ; the minors keep themselves in a perpetual infancy . . ." (Quoted by Aldo Solari, in *Estudios sobre la Sociedad Uruguaya*, Tomo I, Montevideo, 1964.)

for example, threaten to consume an unmanageably high proportion of educational allocations. At present, under the need to finance pensions out of current income, the clash of interests between the "active" contributing employed groups and the "passive" pensioners is coming to the fore. The former try to evade contributions and the latter depress salary levels by seeking new jobs to supplement their pensions. The financing of middle-income housing through social security reserves can also be attributed to the domination of the systems by the urban middle strata.

The urban wage earners in the better organized activities—in large-scale manufacturing, mining, and basic services—while in other respects they differ widely from the salaried middle strata just described, are similarly able to exert effective pressures for social security and other social services. Some groups of organized workers have gained protection matching or surpassing that of the public employees, while others are far behind, but all of them have some acquired rights to protect. It should be mentioned also that in a good many instances the original initiative for the entry of the workers into this competition came less from their own ranks than from national administrations trying to strengthen their hold on office by calling forth new sources of organized support.

(c) The urban and rural low-income strata that constitute the majority in most Latin American countries. Until quite recently these strata received only token benefits from public social action—at most, a year or two of elementary schooling and some protection against mass diseases. Urbanization, coinciding with the gradual breakdown of previous sources of minimal security from the family, the community, or the paternalistic landlord is changing the meaning of "deficits" in social security as well as education, housing and health. As long as the cities were small and the rural majorities were controlled and isolated by the *hacienda* system, the obvious deficiencies measurable by statistical indicators did not amount to real demands exerting pressure on the public sector. The demands are now real and potentially overwhelming in their political implications, although they have no more backing than before in terms of private or public purchasing power, and although the capacity of the more marginal strata to relate demands to immediate needs is erratic. The governmental commitments to universalize and equalize the social services, however far from realization, have

contributed to a widening awareness of social rights. Movements contending for political power now have to bid for the support of masses that a few years ago could be ignored or counted on to vote as directed by the landlord or local *caudillo*. The few relevant investigations of urban marginal groups suggest that their aspirations are not directed towards revolutionary overturn of existing institutions but toward a measure of security and access to the jobs and services enjoyed by other urban strata. The faith in education as a channel towards white-collar positions for their children revealed by some inquiries is striking, and quite out of keeping with the limited real opportunities opened up by the kind of education their children receive. The occasional violent outbreaks in which these strata take a leading part almost always derive either from quite specific frustrations, particularly price increases in staple foods and transport, or from the downfall of populist leaders whose promises have fed their hopes.

The low-income masses are insecure in many different ways and the promise of protection against risks has a powerful appeal to them, but their priorities are likely to be quite different from those of the previous beneficiaries of social security, and their adaptability to systems based on insurance principles and compulsory savings quite limited. Retirement pensions probably fall outside the scope of their immediate aspirations, and their forms of employment as well as their low life-expectancies would make such pensions hardly relevant. Although their response to preventive health measures may be apathetic, free medical care is of crucial importance to them. Family allowances have an obvious appeal to groups with high fertility and subsistence levels of living. Secure tenure of a dwelling or even of a space on which to erect a shack is anxiously sought.

The most basic and intractable problem of the low-income strata, however, is employment security. Up to the present, makeshift ways of livelihood supplemented by informal mutual aid among relatives and neighbours have shown remarkable resilience in keeping measurable urban unemployment from reaching crisis dimensions, but there are symptoms that this resilience may be reaching its limit. Meanwhile, in the rural population, despite the movement to the towns of about half the population increment resulting from natural increase, the most precariously situated elements—cultivators of dwarf holdings needing additional wage income to meet minimum subsistence needs, and

landless migratory workers dependent on seasonal labour—seem to be growing in numbers. Unemployment insurance would be completely inapplicable to the situation of these strata and the financing of direct measures for the support of minimum family incomes would be out of the question, even if the State becomes able to capture and redistribute a much larger share of the national income. While the resources already allocated to social programmes could undoubtedly support health care, family welfare and housing measures much better adapted to the needs of the low-income masses than at present, the underlying deficiencies and frustrations will remain until these masses can be drawn into employment with a reasonable degree of continuity and with incomes supporting an adequate level of living. Such employment is an obvious precondition for the functioning of any contributory system of social security. Moreover as long as family incomes remain highly insecure as well as inadequate, depending on a succession of temporary expedients, the families are unable to make effective use of the educational services that are counted on to raise the future employment qualifications of their children.

In all of the social sectors the State confronts pressures from previous beneficiaries for more and from potential beneficiaries for equal rights. Until recently bargaining over the allocation of public resources was restricted to urban minorities. Now, ever wider population strata are finding political channels through which to enter the bargaining. Even when the inability of the "normal" political process to satisfy contending interest groups brings in the armed forces as arbiters or guarantors of the status quo, the problem remains and the search for expedients to attract wider popular support without threatening existing privileges is soon resumed.

In this process, the ability of the State to implement existing plans and schemes for rationalization of the social services is restricted by the low degree of consensus and confidence in its impartiality as arbitrator of the allocation of resources.

5. CRITERIA FOR SOCIAL SECURITY REFORM

What should be the guiding principle for reform and planning of social security under the circumstances outlined above? Plausible answers to this question do not call for much originality; they have been set forth in several of the regional and national studies cited above. The more intractable problem lies in the secur-

ing of popular understanding and support for the difficult choices that must be made:

(a) Costs must be kept compatible with per capita income levels and with the whole range of claims on public resources. Latin American experience demonstrates that when costs rise above a certain point, neither the direct contributors nor the State can really assume the burden; in the process of evading or shifting it, economic distortions and social injustices proliferate. The fixing of practicable top limits in terms of percentage of national income would depend on many factors peculiar to the country and its ways of obtaining and using social security revenue, but it would seem undesirable to allow employer-worker contributions to rise above 20 per cent of the wage bill.

(b) Financing and distribution of benefits must be made compatible with national objectives for income redistribution. It is probably desirable that whatever social protection the country can afford should continue to be financed *mainly* from a special tax based on earned incomes; whether this is formally contributed by the employer or the employee may not affect the real incidence of the burden very much. The objective of income redistribution implies, however, that an important share of social security income will have to come from general public revenue and that a much higher proportion of the tax sources of this revenue will have to be shifted to the high-income strata. It also implies that benefits financed in this way will have to be distributed in accordance with need, and that the better-off contributors to the system should not expect benefits matching the size of their contributions. Additional social insurance for employed groups with income levels permitting them to save for their own future security may also be desirable, but should not be subsidized by the community at large, either directly or through higher costs of goods and services produced by the insured groups.

(c) The relevance to Latin American conditions of the traditional principles of insurance and financing of benefits through capitalization must be re-examined. These principles have broken down in all of the maturer social security systems of the region. The idea that future benefits for wage-earners can be paid for through investment of part of their current earnings may in itself be an economic fallacy, since such benefits will always be a claim on production at the time they are paid. Ideally, however, social security surpluses should consti-

tute a valuable source of compulsory savings for development investment and a tool of anti-inflationary policy through limitation of current spending. The investment potential has been squandered in the past, and it is doubtful whether the future record can be better, in view of economic vicissitudes, political pressures, and the problems of extension to social strata less able to contribute than the groups previously covered. Statistics on the contribution of social security to domestic investment can be misleading in view of the peculiar distribution of such "investment". Expenditure on social security headquarters buildings are hardly relevant to developmental objectives, and expenditures on hospital buildings and middle-income housing have to be evaluated in relation to over-all social needs and priorities. The meaning of the high proportion of social security surpluses used to purchase Government bonds in some countries would depend on the use made of these funds by the Government; in the main, they go to meet deficits in current expenditure.¹⁸ The countries with chronic inflation have been unable to use the contributions to control consumption, in view of the dimensions of evasion, and by now the social security systems constitute sources of inflationary pressure. Most countries of the region seem to have no practicable alternative to the treating of social security as a redistribution of part of the current national income to meet certain defined contingencies. If capitalization is to be retained, however, the public authorities must make really determined and coherent efforts through the planning machinery to reconcile two objectives that pull in different directions: (i) channeling of investment to projects with high development priority; (ii) a satisfactory and assured rate of return on investment. Renunciation of the principle of capitalization would not mean abandonment of the contributory principle. If the systems are freed from the obligation to accumulate reserves, however, the immediate burden can be lightened somewhat, and, incidentally, the systems will be less tempted to spend on imposing buildings and to enter into services that should be provided by other organs of the State.

¹⁸In Panama, a relatively young and well-administered social security system has made a particularly important contribution of this kind. By the end of 1966 it held 46 per cent of the national Government's internal debt. The 1967 report of the CIAP secretariat on Panama, however, warns that the Caja de Seguro Social "is under pressure to expand its coverage and increase its benefits as well as to enlarge its hospital facilities. It is anticipated, therefore, that it will be of declining importance in the future as a residual purchaser of public debt." (CIAP/169, 11 October 1967.)

(d) Social security provisions must be made compatible with national objectives for full employment and for higher productivity. This criterion requires that interference with the mobility of the labour force should be kept to a minimum and that social security costs should not constitute an artificial stimulus for employers to reduce their labour force and turn to capital-intensive techniques.¹⁹ It also requires that premature retirement from the labour force should be discouraged and that the active population should not be saddled with an excessive burden for support of the retired. The agricultural labour force presents special problems in relation to these criteria. The regionally endorsed objectives of agrarian reform imply far-reaching changes in occupational structures and the emergence of a new class of family farmers producing for the market. The alternative means by which the beneficiaries of agrarian reform can be helped to provide their own security cannot be discussed here, but there seems to be a danger that the introduction of traditional forms of social security for rural wage earners, prior to agrarian reform, will introduce employment rigidities hindering the wider transformation that is needed.

(e) Uniformity, consistency and simplicity in legislative basis, administration and conditions of entitlement must be sought within a single institution responsible for the entire social security sector. As long as this requisite is not met, little progress can be expected toward the income redistribution and full employment objectives. Aside from the hindrances to labour mobility introduced by differential legislation and the important share of resources eaten up by administrative costs, administrative complexities inevitably mean that the system is manipulated for the benefit of the better educated and more influential middle-income contributors. Administrative unification, of course, will offer small advantage unless supported by uniform and equitable laws and procedures. The argument commonly heard in the countries with fragmented systems to the effect that unification would produce a bureaucratic leviathan even more costly and impervious to the interests of the contributors than the present funds serves

¹⁹ This also applies to the whole range of labour-protective legislation which often has consequences the opposite of those intended, when applied to employment situations characteristic of Latin America. For example, laws prohibiting dismissals of workers or providing generous compensation for dismissal after a minimum period of employment commonly motivate employers to dismiss workers prior to completion of the minimum period for entitlement.

as a convenient cover for the interests that stand to lose by any change, but the danger is real.

(f) The whole range of activities carried out by social security institutions at present should be reviewed so as to bring them into closer correspondence with the more urgent needs of the population to be covered and at the same time eliminate duplication with other social sectoral programmes. In general terms, this should mean more emphasis on protection of the family as a unit rather than the insured worker as an individual, and in particular on strengthening of family capacity to provide for the children on whom future development depends. The practicability and desirability of generalized family allowances in Latin America at present are questionable, but they would respond to more urgent social needs and should have more positive developmental consequences than do the retirement pensions.

Public agencies (and even sub-divisions of agencies) in all of the social sectors tend to function in isolation and to set up services paralleling those of other agencies, whether in ignorance of the latter or on the plea that the existing services are not meeting needs that impinge on their own direct responsibilities. The social security systems, with their administrative autonomy and restricted clientele, have been particularly subject to this temptation, and their earlier stages, when contributions provided large surpluses, made it easy to indulge the temptation.

The financing of health services through a social security tax is legitimate, and this should be one of the most promising ways for a system with limited resources to afford some protection to families of contributors as well as the population at large. Up to the present, however, the large expenditures of the social security agencies on health services have entailed various anomalies and sources of inefficiency. It has not been uncommon for the social security system (or several separate social security funds) and the ministry of health to engage in parallel hospital-building programmes, with neither agency able to recruit sufficient physicians and auxiliary personnel to provide effective services for the masses of the population. In a good many systems the families of insured workers are entitled to only limited medical benefits, or none. Moreover, the attempts of the population strata newly incorporated into social security to make use of the medical services to which they are entitled faces them with new sources of insecurity deriving from the insufficient

resources, and bureaucratization of these services: long waits for attention, perfunctory treatment, arrogance of personnel, sudden closing down of services by strikes. This is probably now the most prominent and neuralgic aspect of social security to the groups covered other than the better-off salaried employees. Several workable alternative means of financing and administering public health services, inside or outside of social security, could no doubt be introduced; what is essential is that the services be unified and rationalized, one way or another.

The housing activities of the social security institutions have generally vacillated between the objective of income-earning investment of reserves and the objective of providing low-cost housing for members, without accomplishing either. The cost of housing constructed by the social security funds has placed it out of the reach of the majority of the contributors, inflation and rent freezes have wiped out the returns, and functionaries have found a tempting source of illicit gains in their ability to obtain and dispose of such housing. While the housing needs of the low-income masses are desperate, other means of mobilizing resources to meet these needs seem likely to be more effective than social security.

Future relationships between social security, social assistance and social welfare (social service) deserve more careful consideration than can be given here. Many social security institutions have set up their own social welfare units and these now constitute a leading source of employment for graduates of schools of social work. Their main function, however, is to help applicants through the administrative labyrinth constructed by the social security systems themselves. Simplification of the systems and awakening of a disposition to serve the public among administrative personnel would eliminate most of the need for this function. At the same time, extension of social security to the marginal strata, with their manifold difficulties in gaining a secure foothold in the kind of urban society now evolving in Latin America, should open up a large and challenging area for the functions more legitimately expected of trained social workers, while attempts can be expected to invest social security with responsibilities more properly belonging to social assistance. Outside the social security systems, one finds a wide variety of small-scale public agencies and private agencies receiving public subsidies that are charged with social assistance and social welfare functions. The establishment of such agencies has responded to many separate initiatives and

to the disposition of the public authorities to provide at least a token solution to glaring social evils—such as the large numbers of abandoned and vagrant children—when they have no clear ideas as to how the larger problem can be solved within the limits of the resources at their disposal and when the problem itself does not generate strong enough pressure to force them to allocate larger resources. The pressures are sure to become stronger and the future planning of social security will have to be accompanied by the working out of clear principles for the kinds of social assistance that can be afforded, the sources of its financing, and the administrative channels for its dispensing.²⁰

(g) The social security systems must begin to plan and evaluate their operations in the light of full and reliable statistical information. In all of the social sectors the informational basis for planning remains lamentably weak, and social security is probably the worst off of all. This deficiency has several aspects:

First, practically all of the systems have neglected the opportunity to organize and disseminate information that should be an automatic by-product of their own activities. The lack of records concerning contributors and of full data concerning costs is striking. One of the first stages in reform will have to be the systematic collection of internal statistics and their prompt dissemination in a form intelligible to the public.

Second, neither the legislative bodies nor the social security administrations have taken advantage of the information already at hand that would throw light on the practicability and future implications of specific benefits and measures of financing. This refers particularly to demographic statistics on age distribution and rates of growth of different age groups, and to statistics on composition of the labour force. In some of the systems there is reason to believe that this neglect has been deliberate; actuarial calculations have been kept confidential because of the non-viable position they would reveal.

Third, existing demographic information is far from adequate, and information on family composition, employment and unemployment, wage levels and income distribution much less so. Quantitative generalizations and forecasts on these latter topics can be found, but for the

²⁰ See Virginia A. Paraiso, "Social service in Latin America: functions and relationships to development", *Economic Bulletin for Latin America*, vol. XI, No. 1 (April 1966).

most part they rest on very shaky foundations. It is probable that underemployment and concealed unemployment are growing in importance and that levels of living of some of the marginal groups are deteriorating, but very little is known concerning the dimensions and specific characteristics of these problems. Rational social security policies—as well as over-all development policies—will require much more comprehensive and reliable information, information that can be obtained only through systematic sample surveys.

6. SOCIAL SECURITY AND PLANNING

In view of the nearly universal endorsement by public authorities in Latin America of the indispensability of comprehensive long-term planning for development, it would seem obvious that social security should be incorporated into such planning, along with the other sectors of social policy. For many reasons, however, the inclusion of social security chapters in plans and the setting up of sectoral planning units would be only a first step, and not necessarily a decisive one.

The entire planning movement is now going through a stage of rethinking as a result of its confrontation with the realities of the societies and economies since 1961. The planning machinery created in these years and the accumulated experience in application of plans represent assets of great potential value, but the experience has included a great deal of frustration stemming from “general lack of political support for planning, inadequate over-all development strategies, absence of effective co-ordination between policy and operational machinery and more specific drawbacks”.²¹ Planning has not been able to substitute for vigorous and consistent policy directives, and it cannot be affirmed that the planning structures have yet functioned as effective frameworks for policy in any of the social sectors.

The following hypotheses, most of which have been suggested in preceding pages, go far to explain the limited effectiveness of development planning:

(1) When new governmental mechanisms of programmes are introduced into a country the functions that they actually perform will depend more on the structure of its society and the directions of change in that structure than on

their overt objectives. In most Latin American countries the planning bodies themselves as well as the sectoral programmes have been affected by pressures toward bureaucratization and by the needs of governing coalitions for expedients to evade or postpone dangerous decisions on the allocation of resources and the distribution of incomes.

(2) The processes of economic growth and social change in Latin America at present unavoidably involve the wholesale adoption by part of the population of the most recent consumption patterns, cultural norms and expectations for social services that emanate from the high-income industrialized countries. The same processes contribute to a specific kind of “marginalization” of the rest of the population. This marginalization is not simply equivalent to exclusion or poverty; it combines increasing attraction to and dependence on the modern urban society with increasing insecurity and frustration.

(3) The main determinants behind these processes are the patterns of Latin American involvement in the world system of economic and cultural inter-dependence, rapid population growth, insufficient ability to mobilize resources for development, and low capacity of the supposedly “dynamic” economic sectors to generate employment. The countries of Latin America, like those of the rest of the world, are in the grip of forces that, on the one hand, urge upon them the necessity of quick solutions to the problems of development and social justice and, on the other, make it extremely difficult for them to apply coherent policies or to plan for the long term.

In social security, with its array of vested interests entrenched behind legislative and administrative entanglements, the preparation by a planning agency of a consistent programme embodying the criteria suggested above, with time-tables and specifications of the share of public resources to be devoted to social security, is likely to have no immediate effect at all. In fact, as experience in other sectors indicates, planning can easily become one more device for evasion or postponement of policy decisions that would endanger the existing political compromise, and one more means of satisfying the pressures for public employment of professionals. The slowness of progress towards implementation of the recommendations made several years ago by social security reform commissions and international experts demonstrates the difficulty of crossing the gap between planning and action. The more elaborate and

²¹ “Planning in Latin America” (E/CN.12/772, 2 March 1967). This is the most recent in a series of studies in which the ECLA secretariat has analysed the achievements and problems of development planning.

abstruse the techniques introduced for social security programming, the smaller the likelihood of any practical effect.

The potential utility of planning, however, can be viewed from another and more optimistic direction. John Friedmann has made a very interesting distinction between "manifest" and "latent" functions of planning, with special reference to Venezuela.²² The former comprise the use of certain techniques for the allocation of resources in order to reach quantitative targets. The latter include the focusing of public attention on the creation of a "development society" and the rationalization of political debate over economic and social issues within a common understanding concerning limitations of resources, priority objectives, the need to choose between alternatives and the need to weigh relative costs and benefits of different measures. These latent functions can be of great value even if circumstances outside the control of the planners bring about wide divergencies between their calculations and the actual directions of economic and social change, but they cannot be realized unless public opinion has some faith in the capacity of planning to accomplish its manifest functions.

In social security the latent functions can be of crucial importance. The process of piecemeal expansion without regard to resource limits, equitability or economic by-effects is bringing unpleasant practical consequences that make millions of people aware of the need for some kind of change. Up to a certain point, the very deficiencies of the social security systems have been useful to professional politicians who could trade influence in expediting pension applications for party loyalty and votes. At a later stage, even this kind of usefulness is transformed into an embarrassment that should force the need for reform on the

²² John Friedmann, *Venezuela: From Doctrine to Dialogue*, National Planning Series I (Syracuse University Press, 1965). Another of Friedmann's conclusions is equally relevant to the probable opportunities for the application of planning to social security:

"... planning typically occurs—and receives political backing—under conditions of crisis. The rationality of planning practice must therefore be a rationality adapted to its conditions; it must sacrifice comprehensiveness to the urgency of overcoming specific bottlenecks; it must be more problem- than goal-oriented; it must be piecemeal and fragmented rather than coordinative. Unfortunately, many would-be planners regret this passing of functional rationality to the point where they fail to see the rationality in successful adaptive behaviour to crisis situations . . . For crises always occur when there is rapid change and this, of course, is precisely the condition of modern economic development."

attention of even the most "practical" machine politician. This political function of the social security system has reached its highest degree of institutionalization in Uruguay, and a recent study vividly describes the result:

"In the first stages, those recommended by the system are relatively few, the recommendation is effective, the parties generally obtain the expected compensation. On the one hand, the very efficacy attracts more persons; on the other, the country's economic stagnation compels delay in the granting of pensions. Consequently, the politically supported applicants multiply and their possibilities continually decline. . . . [Finally] each Director of a Fund has to have several secretaries to attend to the inflow; but these are insufficient because no one is capable of remembering such a large number of persons and the state of their applications. Thus each Director must keep a file of all the politically recommended applicants. Then the efficacy of the system continually declines. The normal bureaucratic delays are replaced by the delays of the bureaucracy that has been erected to overcome the former, without any advantage to the citizen. In practice, a rising proportion of the political recommendations sleep in the files just like the applications lacking a recommendation. Moreover, this situation leads to the differential recommendation. A distinction begins to be made between simple recommendations, squared recommendations, cubed recommendations, etc. It is easy to understand that little by little the system loses all relevance to the objectives that brought it into being. A high proportion of the persons recommended feel cheated, the equalitarian function that the system had [in providing a source of help for applicants who lack money and influential friends or relatives] disappears, and its value for the formulation of electoral obligations along with it."²³

The social security systems cannot be made to function better until strong popular demands that they function better offset the more selfish and short-sighted pressures. The emergence of such demands requires a degree of confidence that the public authorities are acting in good faith, that they are capable of planning, and that they are trying to meet the real needs of the people affected by their plans. Effective application of planning to social security will require presentation of the factual bases and the objectives of such planning in language that

²³ Aldo Solari, *El Desarrollo social del Uruguay en la postguerra* (Montevideo, Editorial Alfa, 1967).

can be readily understood, the widest possible publicity for these presentations, and formal representation of all groups affected by social security in the planning process.

This last requisite presents obvious difficulties. "Popular participation in planning" has become a slogan of increasing attractiveness to political leaders and planners, but there are no simple recipes for its translation into practice in societies with rigid social stratification, low consensus and intense political competition. Paternalistic traditions predispose even the most socially-oriented administrators to assume that they know what people need without asking them. Conversely, the low-income masses understandably try to escape from their pervasive insecurity by transfer of decision-making to any figure who seems to have sufficient power to produce solutions—whether employer, public official or populist leader. The strength and representativeness of the organizations representing different classes and occupational groups vary widely; many of these organizations are ideologically committed to intransigent opposi-

tion to the present public authorities, and the greater part of the low-income population can make its voice heard only by voting for populist candidates, if at all.

Nevertheless, the recent growth of peasant unions and of organizations for defense of local interests among the urban marginal population—phenomena that are only beginning to be studied—indicate that the ability of the different strata to express themselves in an organized way through leadership from their own ranks is likely to be more evenly distributed in the future. For the present, planners have to be prepared to swallow considerable portions of disorder, waste, and diversion of resources to meet demands quite different from their own conceptions of priorities. However, if they prepare themselves to enter into a frank dialogue with the people on development objectives, resources and social needs, there are grounds for hope that the present crises can be overcome and that forms of social security capable of contributing both to development and to social justice can be evolved.

INTEGRAL LOCAL DEVELOPMENT PROGRAMMES IN LATIN AMERICA

1. INTRODUCTION

Social tensions and unrest are today prominent in most Latin American societies. Different social strata look increasingly to the institutions of government to advance their separate interests, raise or protect their levels of living, and at the same time provide the impetus for rapid national development. Demands are heard that the State transform the social and economic systems according to their own conceptions of the requisites of progress. This instrumentalist view of the State in contemporary Latin America puts public agencies to the test: an era has begun in which the performance of ministries and organisms of the State are being judged by their contributions to the development process in addition to their capabilities of providing services to their regular clientele.¹

These new activities, which may be interpreted as essentially productive, are increasingly

being demanded by social strata and areas which were formerly neglected. The universalization of development action to cover such groups as one means of enabling them to participate in national progress obliges the public agencies to find new resources, adjust their functions and reorganize their operational systems. As a result, the programmes which are being created in the public sector on the one hand buttress the paternalistic centralism of governmental institutions, while on the other they fragment into a great variety of separate initiatives as the agencies try to come to grips with many variable factors and heterogeneous local situations which include the following:

1. Physical division of Latin America into a large number of zones offering widely differing ecologies and potentialities for human settlement;²

2. Very uneven geographical distribution of population, with main concentration in some

¹ See Charles W. Anderson, *Politics and Economic Change in Latin America* (New York, Van Nostrand and Co., 1967), for an analysis of the role of the Latin American nation-State "... the idea of the nation-State's economic role was reformulated to account for the fact that Latin America's economic tasks were in some measure different from those of the advanced Western nations. At first inchoate and somewhat inarticulate in the nineteen-thirties and nineteen-forties, and then with growing clarity and precision in the nineteen-fifties and nineteen-sixties the idea of the Western nation-State was reworked and reinterpreted around the new ideological framework of economic development. The policy instruments of the Western nation-State were to be refashioned to fit this new conception of the State's task, and extended to fit the peculiar requirements of the region. Economic development became the standard against which the performance of the nation-State was to be measured, and on the basis of which the Western political economic system was to be justified" (p. 45). Claudio Velez writes, "But in Latin America the central government is the pressure group which has been steadily growing in power and influence during the past decades and which alone appears to have the capacity to bring about the generalized modernization of these economies. Further, this trend is very much in keeping with the character of the Hispanic political and cultural complex". Claudio Velez, ed., *The politics of conformity in Latin America* (London, Oxford University Press, 1967), p. 9.

² In classifying these geographical characteristics of Latin America, Schneider identified thirty-three landscapes (*paisajes*). Some of these are so extensive that they can in turn be subdivided into regions or zones. See Oscar Schneider, *Geografía de América Latina* (México, Fondo de Cultura Económica, 1965). The importance of physiographic and geoeconomic considerations in the development of strategies of economic development is now the subject of intensive study: Felipe Herrera has stated that a strategy for the development of integrated geoeconomic areas would appear to be essential if the economic development and social change required in the developing countries are to reach a level of effectiveness which is high enough to counterbalance rapid population growth allied with an uncontrollable expansion of social expectations (Institute for Latin American Integration, Inter-American Development Bank, *Boletín de la Integración*, No. 22 (Buenos Aires, September 1967), p. 470 (Spanish only)). For a theoretical discussion of the problems of regional science in Latin American planning, see John Friedmann, *Regional Development Policy: a Case Study of Venezuela* (Cambridge, Mass., MIT Press, 1966), and Walter Stöhr, "The Definition of Regions in Relation to National and Regional Development in Latin America", paper submitted to the first Inter-American Seminar on the Definition of Regions for Development Planning, organized by the Regional Geography Committee of the Pan American Institute of Geography and History in Canada, September 1967 (mimeographed).

parts of the periphery of the continent and in some highland regions;³

3. Many rural settlements dispersed in very small nuclei—whether of *haciendas* or of small cultivators—in which the compact agricultural village community is typical of only some zones;⁴

4. High rates of natural increase of rural population and considerable geographical mobility with strong currents of migration to new settlement areas, to towns and to large cities;⁵

5. Insufficient employment opportunities in all of these settings;⁶

6. Accumulation of marginal population in the slums and shantytowns of the large cities;⁷

7. Increasing penetration of the countryside by urban influences and of the cities by population groups culturally rural or traditionally small-town;

8. Politico-administrative systems over-concentrated at the centre and typically traditional, inefficient and unrepresentative at the lower levels;⁸

9. Political processes of decision-making that too frequently ignore national planning, co-ordinating mechanisms and developmental priorities in setting policy and allocating resources.⁹

³ J. P. Cole, *Latin America: an Economic and Social Geography* (London, Butterworth's, 1965), figure 2.1, p. 13. For a more complete analysis, see United Nations, *The Economic Development of Latin America in the Post-War Period* (E/CN.12/659/Rev.1, New York, 1964), pp. 74-78, and ECLA, "The demographic situation in Latin America" (*Economic Bulletin for Latin America*, vol. VI, No. 2, October 1961).

⁴ ECLA, "The rural settlement patterns and social change in Latin America . . ." *Economic Bulletin for Latin America*, vol. X, No. 1 (March 1965), p. 1 *et seq.*

⁵ *The Economic Development of Latin America in the Post-War Period*, op. cit. See also John Friedmann, "The future of urbanization in Latin America: some observations of the role of the periphery", paper presented at the Congress of the Inter-American Planning Society (Lima, October 1968).

⁶ ECLA, *Economic Survey of Latin America, 1967* (Santiago, 1968), Part One, chapter II (in the press).

⁷ *Ibid.*; see also Francis Violich and Juan B. Astica, *Community Development and the Urban Planning Process in Latin America* (Los Angeles, UCLA, Latin American Center, 1967), and John F. Turner, "Uncontrolled urban settlement: problems and policies", Working Paper No. 11, agenda item 4, Inter-Regional Seminar on Development Policies and Planning in Relation to Urbanization (University of Pittsburgh, Pittsburgh, Pennsylvania, October-November 1967).

⁸ *Politics and Economic Change in Latin America*, op. cit., and *Economic Survey of Latin America, 1967*, op. cit., "Patterns of rural settlement . . .".

⁹ United Nations, *Report on the World Social Situation, 1967* (New York, 1968), especially the chapter "The social evolution of Latin America"; United Na-

The problems of programme organization tend to become more complex as public agencies seek to adapt their activities to fit the requirements and situations at the local level, and as they gradually see the need to enlist the organized participation of groups, communities and associations.¹⁰ This search for new institutional forms—even though it runs counter to the tendency toward further centralization and bureaucratization—has appeared as one of the motivating forces in revision and reorganization of programmes of integral local development. In the following pages some of the common elements of such programmes of the sectoral and special agencies in Latin American countries are reviewed in relation to the principles of community development, with the aim of studying their contribution to national development processes.

2. A BRIEF COMPENDIUM OF INTEGRAL LOCAL DEVELOPMENT PROGRAMMES

Before attempting an analysis of the manner in which community development and related programmes have been adapted to fit the wide range of local developmental situations in the Latin American countries, it will be useful to list the principal actions falling into this general category. There is good precedent for considering all of the wide range of specialized technical activities which are directed by governments and private bodies at improving economic and social conditions at the local level. During the course of the past fifteen years a number of comparative studies of programmes in the different countries have presented general features of their organization and content, and have attempted to classify them according to various criteria.¹¹ The Economic Commission

tions, Committee for Development Planning, *Report on the Second Session (Official Records of the Economic and Social Council, Forty-third Session, Supplement No. 7, New York, 1967)*, p. 11 *et seq.*; *ILPES Discusiones sobre Planificación*, Textos del Instituto Latinoamericano de Planificación Económica y Social (México, Siglo XXI, 1968), p. 25 *et seq.*; Rubén D. Utría, "La planificación como técnica del desarrollo en América Latina", pp. 21-25 (document submitted to the sixth Pan American Congress of Social Service, Caracas, Venezuela, 15-22 June 1968).

¹⁰ This topic has been discussed in *Desarrollo nacional, participación popular y desarrollo de la comunidad, notas de clase* by Rubén D. Utría, Regional Fundamental Education Centre for Community Development in Latin America (CREFAL), Patzcuaro, Mexico, 1968. See also *Politics and Economic Change in Latin America*, op. cit., pp. 118-128, and Amitai Etzioni, "Toward a theory of social guidance", *American Journal of Sociology*, vol. 73, No. 2 (September 1967), p. 173 *et seq.*

¹¹ In 1958 an international working group used the following criteria in preparing a compendium of com-

for Latin America did so in 1964, using the criteria of popular participation and the principles of community development as the basis of a compendium of programmes.¹²

Our purpose here is to bring that listing up to date and to analyse the current information in order to describe actual trends and recent changes in policy and concepts. The great number of public and private programmes now active at the local level in urban and rural areas of Latin America and the frequent re-organizations and additions, however, make it very difficult to complete a listing and keep it current. The present compendium thus does not pretend to completeness; it is rather a selection of programmes on which information permitting classification is at hand.

(a) *Criteria for the selection of integral local programmes*

Earlier inventories of local action programmes have usually attempted to bring the entire spectrum of such activities within the definition of "community development programmes". In following this procedure, one encounters the difficulty of discriminating between programmes which are: 1, intentionally created as "community development programmes" in accordance with a government policy; 2, essentially identifiable with community development programmes as a generic type but fall outside the area of community development policy; or 3, excluded for reasons of motivation, methods or objectives from the category of "community development programmes". It seems necessary to frame a set of criteria for selecting the appro-

community development programmes in the region of Mexico, Central America, Panama and the Caribbean: (a) the existence of national plans; (b) an integral approach in the application of national services; (c) administrative organization and co-ordination of the national services; (d) training personnel; (e) community participation in the programmes. Naciones Unidas, "Informe de la Segunda Sesión de la Junta Interagencial sobre el Desarrollo de la Comunidad en México, Centroamérica, Panamá y el Caribe", CREFAL, Mexico 1959 (mimeographed). In an earlier publication, the Bureau of Social Affairs based an international survey of programmes on ten "basic elements" of community development (United Nations, *Social Progress through Community Development*, ST/SOA/26, New York, 1955). These criteria were summarized and presented as principles of community development in a later report (United Nations, Economic and Social Council, "Report on concepts and principles of community development and recommendations on further practical measures to be taken by international organizations", New York, 1957) (mimeographed).

¹² ECLA, "Popular participation and principles of community development in relation to the acceleration of economic and social development", *Economic Bulletin for Latin America*, vol. IX, No. 2 (November 1964).

priate programmes while leaving aside those which should not be included in this classification.

In this paper we have used the term "integral local development programmes" to refer to programme types 1 and 2. The programmes included in the compendium have been selected keeping in mind the following criteria:

(i) *Significance*. The programmes in the list are generally the more important efforts in each of the countries in the sense that they: (a) exist as instruments of policy with government support of their activities, with the responsibility for execution assigned to major institutions often receiving material or technical assistance from international or bilateral agencies; (b) normally possess resources and coverage of areas and populations to make a measurable impact; and (c) show a degree of continuity over the years.

(ii) *Substantive complexity*. In keeping with the principles of community development and the operational characteristics of a large number of local development actions, programmes have been included in the list only if they display technical activities which are substantively complex or multisectoral. Programmes confined to a single sectoral field (such as education, health, social welfare and agricultural extension) have been excluded because the application of community development principles would naturally imply the articulation or amplification of these activities in an intersectoral manner. However, this criterion refers to already existing "amplified" programmes. It should not be interpreted as implying that activities of a specific sectoral agency ought to be excluded from integral local development programmes in the future.

(iii) *Principles of community development*. To avoid an indiscriminate listing of all forms of local action, some guideline must be used in making the selection of programmes. For this purpose the principles of community development have been utilized here in a flexible way, since these are widely diffused and generally applied intentionally or unintentionally by scores of agencies at the local level. It should be remembered that these elements of action, or principles as they have later come to be called, existed as methodological guidelines for a number of years before the formulation of the body of techniques formally identified with community development. As our listing discloses, programmes utilizing these action principles existed in some Latin American countries in the nineteen-twenties.

The ten principles cited in United Nations documents can be synthesized in the following points:

The local development activities will correspond to the basic needs of communities or other local associations expressed through their leaders and institutions;

Government and people will act jointly through multipurpose programmes to achieve goals which are balanced in their effect and significant both locally and nationally;

Popular participation in the programme will be characterized by stimulating positive attitudes toward development, will involve conscious and organized action for mobilizing social solidarity and resources, and will insure important roles for women and youth;

Operational organization of the activities will reflect public policy stated in development plans, rationalized inputs of resources for specific programmes or projects as instruments of the policy, and adaptation of administrative arrangements of technical services to fit local ecological and socio-economic requirements.

(b) *The list of programmes*

Local and community development programmes of an integral type have emerged in all of the Latin American countries. In the compendium we have included twenty-three countries: Argentina, Barbados, Bolivia, Brazil, Chile, Colombia, Costa Rica, Cuba, Dominican Republic, Ecuador, El Salvador, Guatemala, Guyana, Honduras, Jamaica, Mexico, Nicaragua, Panama, Paraguay, Peru, Trinidad and Tobago, Uruguay and Venezuela, broken down into four sub-regional groups.

The list presents factual and generalized information about the programmes. It indicates first the designation of the programme and the names of the executing agencies. Those agencies whose activities include a multipurpose approach at the local level are included when these functions have been amplified beyond those of a single sectoral service, include integral comprehensive activities, or involve co-ordination, articulation or joint action among various technical services.

Since we are interested in identifying the recent trends of organization, content and policy in the countries as these may be expressed in the kinds of programmes recently created or reorganized, a third column includes the legal basis and date of organization of the programmes. Unfortunately, the information about

the changes of structure within agencies generally becomes available only some months after the modifications are made. Hence cases may occur in which the compendium does not reflect the most up-to-date facts about the legal authority for a given programme.

The fourth column, on coverage, refers to the territorial scope of the programme as national, regional or local, indicating whether the programme has been aimed at a rural or an urban population. A programme which covers several local areas has been considered regional in coverage, while a programme which includes two or more zones or regions (usually located in different provinces or states) has been classified as national.

The column on administrative hierarchy of programmes refers to the kinds of divisions or units into which operations have been decentralized. Since it is quite common for planning to cover delimited geographical areas in both rural and urban programmes, another column has been included to indicate the scope of the area covered.

An attempt has also been made to capture the essential intersectoral or substantive complexity of each programme. The terminology used in this column presents some difficulties, because bureaucratic organizations tend to evolve by a continuous adjustment of their structure and function to meet new requirements. These changes are reflected in the programme which the agency carries out, and *pari passu* such changes in programme result in further modifications in the organizational make-up of the agency. The terminology used here describes broad features and does not exclude the possibility that the same programme might fit into more than one type if other characteristics are regarded as being more significant. The four kinds of categories used here do tend to overlap, yet the way in which the substantive complexity of the programme can be correlated with agency organizational forms may be distinguished on the basis of: (i) special purpose agencies with integral activities; (ii) co-ordinating mechanisms which articulate the activities of a number of agencies; (iii) sectoral agencies which co-ordinate activities by mutual agreement; and (iv) sectoral agencies with amplified activities.

Finally, in the last column is indicated the extent to which training activities are carried out as permanent functions of the agency at the professional level, and in-service training on an occasional basis. The training of local leaders has not been included because this is considered

to be a function of all such programmes consistent with the application of community development principles. Since most international or bilateral technical assistance activities are closely related to training, mention has been made of these in this column also.

3. CHARACTERISTICS OF THE PROGRAMMES LISTED

A comparative study of the descriptive information compiled in the columns of the tables above suggests a number of generalizations on two important questions—the nature and scope of the programmes, and their relationships to each other within the context of national development.

(a) *Description of the programmes*

The outstanding characteristics of such programmes in most countries are their number, their variety and their limitations. The exuberant plurality of the programmes was already noted in a 1961 study of community development programmes in Mexico, Central America, Panama and the Caribbean. In that year thirty-six programmes were identified and compared. At present the number in Mexico exceeds thirty, and Colombia has over fifty. One purpose of an analysis of the programmes will be that of finding an explanation for this proliferation.

Another obvious feature of the programme is their scattered territorial and substantive distribution. They appear in both rural and urban areas. They are located among all kinds of agencies in both the public and private sectors. Their capacity is usually incomplete and limited by absence of important substantive elements and by constriction of territorial scope.

Of equal interest—and perhaps directly related to the interest of sectoral agencies in creating their own internal multisectoral activities—is the accelerating rate of programme reorganization and the creation of new kinds of agency activities in the past several years. About one-half of all the programmes listed have been created, modified or reorganized since 1963.

The listing also reveals that the kinds of programmes, the types of agencies administering them, and the legal authority for their creation are extremely varied. No one policy can be discerned. Instead, the decision about when to create or reorganize, and what form the new instrument should take seems to reflect a large number of different policies quite unrelated to each other. Programmes are set up on the basis of Presidential decrees, acts of Parliament,

ministerial decrees, agency fiats or administrative dispositions. Behind these varied and sometimes contradictory decisions appear many kinds of motivations or objectives.

The majority of the programmes in the listing are rural. Combined shortages of funds and relative ease in mobilizing local popular resources often lead to an extension of programmes there. National agencies not operating in such zones in the past may wish to enlarge their territorial coverage without having obtained (or as a means of obtaining) a commensurate allocation of funds. Such agencies have a legal basis for assuming a national scope but are unable to begin new or amplified activities in the entire country. The expansion takes place gradually by adding operating units in scattered areas. Coverage is rarely complete throughout the nation, even when these agencies have obtained funds from external lending sources. As the agencies offer broader services, they tend to apply community development methods in organizing local self-help for constructing material works as a way of providing visible benefits and evidence of their coverage in communities. It is common to find agencies with similar activities working in adjacent local areas, avoiding duplication by “gentlemen’s agreements” not to contend for the same clientele. However, competition among agencies occurs in local areas where concentration of rural population, accessibility from an urban base of operations, social structure and attitudes in villages facilitate an extension of coverage.

The programmes in our list reveal similar patterns of territorial coverage throughout the continent. Dispersed rural populations and frontier regions have been neglected in large parts of Latin America. Where opposition of landowners impedes work, agencies rarely attempt to provide services in *haciendas*, plantations or large commercial farms unless these are expropriated or affected by agrarian reform. The patchwork coverage by many agencies may be found concentrated among small-holder populations (owners of *minifundios*) and low-income shantytown dwellers (marginal populations) of urban areas. Mexico, Venezuela and Chile have made notable efforts to provide more balanced coverage of most rural areas.

In spite of the rapid shift of populations to urban areas and the grave social and economic problems which have appeared in relation to urbanization and industrialization, urban programmes do not appear to be keeping pace with the expansion of rural ones. The material

Table
MEXICO, CENTRAL AMERICA, PANAMA,

<i>Country</i>	<i>Programme (1)</i>	<i>Responsible agency (2)</i>	<i>Legal basis and date (3)</i>
Costa Rica	National Community Development Programme	Presidency of the Republic	Organized 1963
	Agrarian Reform and Settlement Programme	Institute of Lands and Settlement (ITCO)	Law 2,825 of 1961, revised 1964
	Housing, Urbanism and Social Service Programme	National Housing and Urbanism Institute (INVU)	Law 1,788 of 1954
Cuba	Agrarian Reform Programme	Institute of Agrarian Reform (INRA) of the Ministry of Agrarian Reform	Agrarian Reform law of 1959, revised in 1963
El Salvador	Fundamental Education Brigades	Fundamental Education Department, Ministry of Education	
	Urban Housing Programme	Urban Housing Institute	Legislative decree 29 of 1950
	Rural Settlement Programme	Rural Settlement Institute	
	Community development programme	Salvadorean Company for Coffee and Administration of Rural Welfare	
Guatemala	Integral Community Development Programme	Ministry of Social Welfare	Decree 296 of 1964
	Programme of Rural Socio-educational Development and Literacy Campaign	National Indian Institute and Department of Fundamental Education, Ministry of Education	
	Programme of Agricultural Extension and Development of the Indian Economy	General Bureau of Agricultural Research and Extension and its Indian Economic Development Service, Ministry of Agriculture	SFEI organized 1953, reorganized 1967
	Programme of Mobile Units for Rural Areas	General Bureau of Public Sanitation, Ministry of Public Sanitation and Social Assistance	Organized 1963
	Land Reform and Settlement Programme	National Institute of Agrarian Transformation	Law of 1962
	Housing and Urbanism Programme	National Institute of Housing and Urbanism	Law 345 of 1965
Honduras	Community Development Programme	National Agrarian Institute	Law of 1962
Mexico	Indian Co-ordinating Centres	National Indian Institute, Presidency of the Republic	Law of 1948
	Cultural Missions	Ministry of Public Education	Organized 1921, suspended in 1936 and reorganized in 1942
	Literacy Programme	Ministry of Public Education	

I

SPANISH-SPEAKING CARIBBEAN

<i>Coverage</i> (4)	<i>Administrative hierarchy</i> (5)	<i>Levels of planning</i> (6)	<i>Substantive complexity</i> (7)	<i>Training media</i> (8)
National rural and urban	Central and local	National and local	Co-ordinating and executing agency integral activities	
National rural	Central and local	National and local	Autonomous agency: integral activities	International technical assistance
National urban and rural	Central and local	National and local	Autonomous agency: integral activities	
National rural	Central, regional and local	National, regional and local	Autonomous institute: integral co-ordinated activities	International and university technical assistance with in-service courses
National rural	Central and local	National and local	Sectoral agency: amplified and co-ordinated activities	
National urban	Central and local	National and local	Autonomous agency: integral activities	
National rural	Central and local	National and local	Autonomous agency: integral activities	
National rural	Central and local	National and local	Autonomous agency: integral activities	
National rural	Central and zonal	National and local	Sectoral agency: amplified activities	International and bilateral technical assistance
National rural	Central and local	National and local	Sectoral ministry: amplified activities	
National rural	Central and zonal	National and local	Sectoral ministry: amplified activities	
National rural	Central and zonal	National and local	Sectoral ministry: amplified activities	
National rural	Central and zonal	National and local	Autonomous agency: integral activities	International technical assistance
National urban and rural	Central and local	National and local	Autonomous agency: integral activities	
National rural	Central and local	National and local	Autonomous agency: integral activities	
National rural	Central, regional and local	National, regional and local	Autonomous agency with co-ordinating council: integral activities with co-ordination	International and university technical assistance
National rural	Central and zonal	National and local	Sectoral agency: amplified activities	
National rural	Central and zonal	National and local	Sectoral agency: amplified activities	

Table

<i>Country</i>	<i>Programme (1)</i>	<i>Responsible agency (2)</i>	<i>Legal basis and date (3)</i>
Mexico (cont'd) ..	Indian Welfare Brigades	Ministry of Public Education	Organized in 1922
	Agricultural Promotion Brigades	Ministry of Education	Organized in 1959
	Rural Welfare Centres	Ministry of Health and Assistance	Organized in 1953
	Co-ordinated Health Services	Ministry of Health and Assistance	Organized in 1935
	Social Security Centres	Mexican Institute of Social Security	Organized 1957, reorganized 1960
	Integral Agrarian Reform and Settlement Programme	Department of Agrarian Affairs and Settlement	Organized 1959
	Community Development Programmes	Plan Lerma for Technical Assistance	Lerma - Chapala - Santiago Commission organized 1950; C.D. programme organized 1966
	Community Development Programme	Papaloapan River Commission	
Nicaragua	Community Development Programme	Nicaraguan Development Institute (INDE)	Organized 1966
	Community Development and Adult Education Programme	Ministry of Public Education	
	Rio Coco Pilot Project in Fundamental Education	Ministry of Public Education	Organized 1954
	Agrarian Reform Programme	Nicaraguan Agrarian Institute (IAN)	Law of 1963; IAN created 1964
Panama	Community Development Programme	Ministry of Labour and Social Welfare and Public Health	Organized in 1957, reorganized 1963
	Community Development Programme	National Association of Economic Development, Ministry of Agriculture, Commerce and Industry	Organized in 1965
	Community Development Programme	Institute of Housing and Urbanization	Organized in 1966
	Rural Waterworks Programme	Institute of Waterworks and Sewerage, Ministry of Health, Labour and Social Welfare	Co-ordinating Committee formed 1965
	Agrarian Reform Programme	Agrarian Reform Commission	Law 37 of 1962
Dominican Republic	Community Development Programme	National Council of Community Development, Presidency of the Republic	Organized 1962

1 (continued)

<i>Coverage (4)</i>	<i>Administrative hierarchy (5)</i>	<i>Levels of planning (6)</i>	<i>Substantive complexity (7)</i>	<i>Training media (8)</i>
National rural	Central and zonal	National and local	Sectoral agency: amplified activities	
National rural	Central and zonal	National and local	Sectoral agency: amplified activities	
National rural	Central and local	National and local	Sectoral agency: amplified activities	
National, rural and urban	Central, zonal and local	National, state and local	Sectoral agency: amplified activities	
National urban, semi-urban and rural	Central and local	National and local	Sectoral agency: amplified activities	
National rural	Central, regional and local	National, regional and local	Sectoral agency: amplified activities	International technical assistance
Regional rural	Regional and zonal	Regional and zonal	Autonomous agency: co-ordinated integral activities	International technical assistance
Regional rural	Regional and zonal	Regional and local	Autonomous agency: co-ordinated integral activities	International technical assistance
National rural	Central and local	National and local	Autonomous agency: integral activities co-ordinated with IAN	
National rural	Central and local	National and local	Sectoral agency: amplified activities	
Regional rural	National and regional	Regional and local	Sectoral agency: amplified and co-ordinated activities	
National rural	Central and regional	National and local	Autonomous agency: integral services co-ordinated with INDE	
National, rural and urban	Central and local	National and local	Sectoral agency: amplified co-ordinated activities	International technical assistance and in-service training
National, urban and rural	Central and local	National and local	Autonomous agency: integral activities	Bilateral technical assistance by contract with private agency
National urban	Central and local	National and local	Sectoral agency: amplified activities	Bilateral technical assistance and in-service training
National rural	Central and local	National and local	Sectoral ministries: co-ordinated activities	
National rural	Central and local	National and local	Autonomous agency: integral activities	
National rural	Central and zonal	National and local	Co-ordinating and executing agency: integral activities	Bilateral technical assistance

Table
ENGLISH-SPEAKING

<i>Country</i>	<i>Programme (1)</i>	<i>Responsible agency (2)</i>	<i>Legal basis and date (3)</i>
Barbados	Community Development Programme	Ministry of Health and Community Development	
Guyana	Community Development Programme	Community Development Division, Office of the Prime Minister	Organized 1966
Jamaica	Hundred Village Programme	Social Development Commission, Ministry of Youth and Community Development	Organized 1963
	Community Development Programme	Sugar Industry Labour Welfare Board	Organized 1949
Trinidad and Tobago	Better Village Programme	Community Development Division, Office of Prime Minister	Organized 1963

Table
ANDEAN

<i>Country</i>	<i>Programme (1)</i>	<i>Responsible agency (2)</i>	<i>Legal basis and date (3)</i>
Bolivia	Community Development Programme	Community Development and Rural Extension Service (SEDEX), Ministry of Agriculture	Organized as Rural Development Programme, 1965; reorganized 1967
	Land Settlement Programme	Settlement Institute, Ministry of Agriculture	Organized 1965; reorganized 1967
Colombia	Popular Integration Programme	National Council of Popular Integration, Presidency of the Republic	Decree 2263 of 1966
	National Programme of Community Action	Division of Community Action, Ministry of the Interior	Law 19 of 1958 reorganized in 1959, 1960
	Special District Programme of Community Action	Office of the Mayor of Bogotá	Agreement No. 4 of 1959
	Cundinamarca Departmental Programme of Community Action	Division of Community Action	
	Programme of Community Action and Public Services	Autonomous Regional Corporation of the Savannah of Bogotá	Law 3 of 1961
	Antioquia Departmental Programme of Community Action	Departmental Council of Community Action and Governor's Office	Departmental Decree 179 of 1966

2

CARIBBEAN

<i>Coverage (4)</i>	<i>Administrative hierarchy (5)</i>	<i>Levels of planning (6)</i>	<i>Substantive complexity (7)</i>	<i>Training media (8)</i>
National rural	Central and local	National and local	Sectoral ministry: amplified activities	International technical assistance with occasional training
National rural	Central and district (local)	National and local	Co-ordinating and sectoral agency: integral co-ordinated activities	International technical assistance with occasional training
National rural	Central and local	National and local	Sectoral ministry: amplified activities	International university technical assistance
National rural	Central and local	National and in 17 areas	Autonomous agency: integral activities	
National rural	Central and local	National and local	Co-ordinating and executing authority: integral activities co-ordinated at central level	International and university technical assistance

3

COUNTRIES

<i>Coverage (4)</i>	<i>Administrative hierarchy (5)</i>	<i>Levels of planning (6)</i>	<i>Substantive complexity (7)</i>	<i>Training media (8)</i>
National rural	Central and local	National and local	Sectoral agency: amplified activities	International and bilateral technical assistance
National rural	Central and local	National and local	Autonomous agency: integral activities	International technical assistance
National rural and urban	Central and local	National and local	Co-ordinating authority: integral activities in local projects	
National rural and urban	Central and departmental	National and local	Sectoral agency: amplified activities co-ordinated with agencies	International technical assistance and occasional training
Local urban	Municipal (local)	Local	Co-ordinating authority: co-ordinated action of municipal services	In-service courses with university assistance
Regional rural	Central and regional	Regional and local	Sectoral agency: amplified activities with interagency co-ordination	In-service training course of DAC
Regional rural	Regional	Regional and local	Autonomous agency: integral activities	
Regional rural	Departmental and local	Regional and local	Co-ordinating authority: integral activities of provincial services	In-service training courses with university assistance

Table

<i>Country</i>	<i>Programme (1)</i>	<i>Responsible agency (2)</i>	<i>Legal basis and date (3)</i>
Colombia (cont'd)	Medellín Municipal Programme of Community Action	Municipal Community-Civic Action Office	
	Cali Community Action Programme	Municipal Department of Community Action, Cali	
	Urban Housing Programme	Territorial Credit Institute, Ministry of Development	Decree 200 of 1935, Reorganized 1956
	Integral Applied Nutrition Programme	National Nutrition Institute, Ministry of Health	Organized 1962, reorganized 1963
	Village Roads Programme	National Village Roads Fund, Ministry of Public Works	Decree 1650 of 1960
	Community Action Programme	National Federation of Coffee Growers	Organized 1963
	Agrarian Reform Programme	Colombian Land Reform Institute (INCORA)	Law 135 of 1961
	National Indian Programme	Division of Indian Affairs, Ministry of the Interior	Reorganized 1960
	Development programme for the upper and middle Guajira	Division of Indian Affairs, Ministry of the Interior	Organized 1967
Ecuador	Programme of Rural Development, Project of Indian Integration	Andean Mission of Ecuador, Ministry of Social Welfare and Labour	Organized in 1956, reorganized by Decree 193 of 1964
	Agrarian Reform and Settlement Programme	National Land Reform and Settlement Institute	Organized 1957, reorganized by Decree 1480 of 1964
	Community Development Programme	Committee for Rehabilitation and Urbanization of the Suburban areas of Guayaquil (CRUBS)	Organized by Law 102 of 1967
	Experimental Functional Literacy Project	Ministry of Public Education	Organized 1966 by agreement with UNESCO
	Manabi Rural Health Programme	Ministry of Health and Manabi Rehabilitation Centre	Organized 1965 by agreement with WHO/PAHO
	Programme of Agrarian Reform and Technical Assistance to Smallholders	Ecuadorian Centre of Agricultural Services (CESA)	Organized 1967
Peru	Joint Action Project for Indian Integration	National Council of Community Development (CACD) and 11 agencies	Organized 1966 by Law 16174
	Popular Co-operation Programme	Ministry of Development and Public Works	Decree 37-F of 1963

3 (continued)

Coverage (4)	Administrative hierarchy (5)	Levels of planning (6)	Substantive complexity (7)	Training media (8)
Local urban	Municipal	Local	Co-ordinating agency: integral activities by municipal services	In-service training courses with university assistance
Local urban	Municipal	Local	Co-ordinating authority: integral activities of municipal services	In-service training
National urban	Central, departmental and municipal	National and local	Autonomous agency: integral activities	In-service training
National urban	Central, departmental and local	National and zonal	Autonomous agency: integral activities	In-service training
National rural	Central and departmental	National and local	Autonomous agency: sectoral activities	
National rural	Central, departmental and local	National and local	Autonomous agency: integral activities	In-service training
National rural	Central and zonal	National and local	Autonomous agency: integral activities	International technical assistance and in-service training
National rural	Central and zonal	National, regional and local	Sectoral agency: amplified activities with interagency co-ordination	International technical assistance
Regional rural	Central and regional	Regional and local	Autonomous agency: integral activities with inter-agency co-ordination	International technical assistance
National rural	Central and zonal	National and local	Autonomous agency: integral co-ordinated activities	International technical assistance, and in-service training at established agency centres
National rural	Central and zonal	National and local	Autonomous agency: integral co-ordinated activities	International technical assistance and in-service training
Local urban	Municipal	Local	Autonomous agency: integral activities	International technical assistance
National urban and rural	Central and local central	National and local	Sectoral agency: amplified and co-ordinated activities	International technical assistance and in-service training
Regional urban and rural	Regional and local	Regional and local	Autonomous agency: integral activities with co-ordination	International technical assistance with in-service training
National rural	Central and local	National and local	Private agency: integral activities	International technical assistance
National rural	Central and zonal	National zonal and local	Planning and Co-ordinating authority without executive responsibilities	International technical assistance, occasional training courses
National rural and urban	Central, zonal and local	National and local	Sectoral ministry: amplified activities with co-ordination by CNDC	International technical assistance, occasional training courses

Table

<i>Country</i>	<i>Programme (1)</i>	<i>Responsible agency (2)</i>	<i>Legal basis and date (3)</i>
Peru (<i>continued</i>)	Community Research and Handicraft Development Programme	Peruvian Indian Institute	Reorganized 1966
	Community Organization and Property Enrolment Programme	General Bureau of Communities, Ministry of Labour and Communities	Reorganized 1966
	Agrarian Reform and Credit Programme	National Agrarian Reform Office	Law 15037 of 1964
	Agricultural Extension Programmes	Agricultural Development and Research Service	
	Co-operative Development Programme	National Co-operative Institute	Organized 1965
	Public Health and Sanitation Programme	National Fund for Health and Social Welfare	
	Rural education and "nuclear" schools programme	Ministry of Education	
	Housing and urbanization programme	National Housing Council	
Venezuela	National Community Development Programme	Executed by public institutions at national, state and local levels, coordinated and planned by Community Development Division, Central Office of Planning and Coordination of the Presidency (CORDIPLAN)	Decree No. 492 of 1958
	Community Organization and Development Programme	Ministry of Sanitation and Social Assistance	
	Community Development and Municipal Development Programme	Foundation for Community Development and Municipal Development	Decree No. 711 of 1962
	Agrarian Reform Programme	National Agrarian Institute (IAN)	Agrarian Law of 1960
	Venezuelan-Colombian Border Integration Programme in the Guajira	National Indian Commission and Indian Affairs Office of Zulia State	Organized 1962, reorganized 1966

Table

BRAZIL AND THE SOUTHERN

<i>Country</i>	<i>Programme (1)</i>	<i>Responsible agency (2)</i>	<i>Legal basis and date (3)</i>
Argentina	Andean Project, Puna of Jujuy	Provincial Executive Committee for the Andean Project	Decree 13411 of 1962
	Community Promotion and Assistance Programme	National Secretariat for Community Promotion and Assistance Ministry of Social Welfare	Organized in 1967

3 (continued)

<i>Coverage (4)</i>	<i>Administrative hierarchy (5)</i>	<i>Levels of planning (6)</i>	<i>Substantive complexity (7)</i>	<i>Training media (8)</i>
National rural	Central and zonal	National, zonal and local	Autonomous agency: integral activities co-ordinated by CNDC	International technical assistance, occasional training courses
National rural	Central and zonal	National and zonal	Sectoral agency: amplified activities co-ordinated by CNDC	Occasional training courses
National rural	Central and zonal	National and zonal	Autonomous agency: integral activities co-ordinated by CNDC in some zones	
National rural	Central, departmental and zonal	National and zonal	Autonomous agency: integral activities co-ordinated by CNDC	Occasional training courses
National urban and rural	Central, departmental and zonal	National and zonal	Autonomous agency: integral activities co-ordinated by CNDC	Occasional training courses
National rural	Central, departmental and zonal	National, departmental and local	Autonomous agency: integral activities co-ordinated by CNDC	International technical assistance
National rural	Central, departmental and zonal	National and local	Sectoral agency: amplified activities co-ordinated by CNDC	International technical assistance
National urban	Central and local	National and local	Autonomous agency: integral activities	International technical assistance
National, rural, urban	Central, state, municipal and local	National, regional, state and local	Planning and co-ordinating agency without operational responsibilities: co-ordinated activities at national, state and local levels	International technical assistance: in-service and pre-service training in CIADEC, inter-agency training centre
National, rural and urban	Central, state and local	National, state and local	Sectoral agency: amplified activities with co-ordination	Courses in CIADEC and international technical assistance
National urban	Central and local	National and local	Autonomous agency: integral activities	Courses in CIADEC
National rural	Central, state and local	National and local	Autonomous agency: integral activities	International technical assistance: courses in CIADEC
Regional rural	Regional and local	National, regional and local	Sectoral agency amplified and co-ordinated activities	International technical assistance: courses in CIADEC

4
CONE COUNTRIES

<i>Coverage (4)</i>	<i>Administrative hierarchy (5)</i>	<i>Levels of planning (6)</i>	<i>Substantive complexity (7)</i>	<i>Training media (8)</i>
Regional rural	Regional and local	Regional and local	Co-ordinating authority: coordinated activities	International technical assistance
National, rural and urban	Central, provincial and zonal	National, provincial and zonal	Co-ordinating machinery: co-ordinated activities	In-service training at provincial level

Table

<i>Country</i>	<i>Programme (1)</i>	<i>Responsible agency (2)</i>	<i>Legal basis and date (3)</i>
Argentina (<i>cont'd</i>)	Agricultural Extension and Community Development Programme	National Institute of Agricultural Technology	Decree 21680 of 1956
Brazil	Brazilian Rural Co-operative Extension Programmes	Brazilian Association of Credit and Rural Assistance (organized by states)	Organized 1948
	Agrarian Reform Programme	Brazilian Institute of Agrarian Reform	Decree II of 1962
Chile	Rural Development Programme	Agricultural Development Institute (INDAP)	Law 15020 of 1962, revised in 1967 by Law 16640
	Agrarian reform programme	Agrarian Reform Corporation (CORA)	Law 15020 of 1962, revised in 1967 by Law 16640
	Community Development Programme of CORHABIT	Corporation of Housing Services (CORHABIT), Ministry of Housing and Urbanism	Organized in 1966
	Community Development Programme of SNS	National Health Service (SNS), Ministry of Health	Law 10383
	Fundamental and Adult Education Programme	Ministry of Education	
	Rural Leadership Training Programme	Institute of Rural Education	Organized privately in 1954
	Popular Promotion Programme	National Council for Popular Promotion, Presidency of the Republic	Organized by Presidential Authority in 1964
	Agrarian Reform Programme	Institute of Agrarian Promotion (INPROA)	Organized 1962 Privately (INPROA)
	Community Development Programme	Arica Development Board	Organized 1961, reorganized 1965 to include Andean Programme
	Punitaqui Area Project	Departmental Consultation and Coordination Committee for Punitaqui executed by Ministry of Agriculture and other agencies	Organized 1963 by agreement with PMA ONU
Paraguay	Settlement Programme	Institute of Rural Welfare	Organized 1965
	First Integral Rural Development Pilot Project	National Council of Social Progress, IBR and other agencies	Organized 1967

4 (continued)

Coverage (4)	Administrative hierarchy (5)	Levels of planning (6)	Substantive complexity (7)	Training media (8)
National rural	Central, provincial and local	National, provincial and local	Sectoral agency: amplified activities	
Rural by states	State and local	State and local	Autonomous agency: integral activities	
National rural	Federal, state and local	National, state and local	Autonomous agency: integral activities	
National rural	Central, departmental and local	National, regional and local	Autonomous agency: integral activities with co-ordination	Regularly scheduled training by ICIRA
National rural	Central, regional and local	National, regional and local	Autonomous agency: integral activities with co-ordination	National training institute for agrarian reform created in 1964: regularly scheduled training by ICIRA
National urban	Central, departmental and local	National, regional and local	Autonomous sectoral agency: amplified activities with co-ordination by projects	Occasional training courses in services
National urban and rural	Central, departmental and local	National, departmental and local	Sectoral agency: amplified activities with inter-agency co-ordination by projects	Training activities co-ordinated with schools of social work
National urban and rural	Central, departmental and local	National, departmental and local	Sectoral agency: amplified activities	Occasional training courses
National rural	Central and local	National and local	Sectoral private agency: specialized activities by contract or agreement with public agencies	Occasional training courses
National, urban and rural	Central, departmental and local	National and local	Co-ordinating authority with operational responsibilities: amplified activities co-ordinated with CORHABIT	Occasional training courses
National rural	Central, regional and local	National and local	Private agency: integral activities	
Regional urban and rural	Regional and local	Regional and local	Autonomous agency: integral activities	International technical assistance with in-service training
Rural local	Local	Local	Co-ordinating agency: integral coordinated activities	International technical assistance
National rural	Central, regional and local	Regional and local	Autonomous agency: integral activities with co-ordination	International technical assistance
Regional rural	Central and regional	Regional and local	Co-ordinating agency: integral co-ordinated activities	International technical assistance

Table

Country	Programme (1)	Responsible agency (2)	Legal basis and date (3)
Paraguay (continued)	Nutrition and Education Programme	Ministries of Health, Education and Agriculture	
Uruguay	Integral Community and Regional Development Programme	Office of Community and Regional Action, Ministry of Agriculture	Organized 1963, reorganized 1967
	Municipal Programme to Promote Health and Development	Bureau of Health and Development, Municipality of Montevideo	Organized 1967

available indicates that there are fewer new urban programmes, and that the total coverage of populations in urban areas by integral activities remains relatively limited. This, rather strangely, has occurred in spite of the fact that rural programmes cluster in regions having urban growth centres which serve as bases of operations for work in rural areas. Rural and urban activities are almost totally dichotomized: an agency engaged in one rarely acts in the other, in spite of the fact that most organisms are eager to amplify the scope of their work. Hence the number of agencies on the list, having both rural and urban coverage, is very small, even though the needs for local action programmes in the smaller cities are great.

Rural integral programmes are becoming standardized in content. Agrarian reform programmes include a wide range of substantive activities centred in the resettlement and rationalization of land tenure; consequently, their coverage is often localized in areas or zones. Rural development programmes have wider territorial coverage but in their complex activities lack authority to resolve the problems of extreme fractionalization of farm units in the areas of *minifundia* in which they normally operate. The same may be said of the similar programmes referred to as "Indian integration projects", which are territorially limited to regions of indigenous populations. Other coverages in rural areas include fishing villages, as in Cuba or Chile, and areas of agro-economic specialization, such as the sugar-producing areas of Jamaica and Cuba or the coffee-growing areas of Colombia and El Salvador.

Urban programmes generally concentrate on the kinds of substantive activities related to housing and urbanization. Perhaps because the standard social services are well established in the large cities, with their own facilities, personnel and clienteles, they do not see the need

for integrating or co-ordinating their activities in joint action systems. Some urban agencies seem interested in resorting to self-help activities and the mobilization of popular participation as a "cheap" means of increasing their resources; however, when the urban social services attack the problems of the shantytowns and marginal groups, they resort to community development methods. Although considerable experimentation has been done in Lima, Caracas, Mexico City, Guayaquil, Cali, Bogotá, Medellín, Santiago and Montevideo, a standard formula or "model" has not yet emerged in Latin America for integral local programmes in urban areas.

The information summarized in the compendium indicates that both administrative organization and levels of planning of the programmes remain highly centralized. It is quite clear that national planning has had little effect on the functional co-ordination of ministries and agencies that carry out multisectoral activities in local areas excepting in Venezuela. In most countries except Chile planners have not conceived the regionalization of development activities as a joint effort by multiple agencies. Little attention has been given to the integration of sectoral activities in national planning. In most cases the sectoral programmes are packaged into separate chapters of a "plan" which have very little substantive relationship with each other, or with the economic parts of the plan. A few integral or multisectoral programmes have been included in the plans as though their activities did not interfere with or duplicate many of the sectoral programmes, but most of the integral programmes are not included at all.

Since the programmes remain unrelated to each other organically, provision has seldom been made for the deliberate creation of mechanisms for co-ordination of joint action. The technical services tend to establish their or-

4 (continued)

Coverage (4)	Administrative hierarchy (5)	Levels of planning (6)	Substantive complexity (7)	Training media (8)
National rural	Central and local	National and local	Sectoral agencies: co-ordinated activities	
National rural	Central	National and local	Sectoral agency: amplified activities with co-ordination	Occasional international technical assistance
Local urban	Local	Local	Sectoral agency: amplified activities	

ganizational hierarchy and operating units without any thought of collaboration with related services. Different administrative standards lead to widely diverging practices in planning, decision-making and operations within and among agencies. It is quite common to find that several different services of the same ministry have parallel or overlapping activities. Several examples may be found in the compendium. It is also common to find that new programmes or executive instruments are created by parliament or executive authorities without reference to the national plan. One concludes that the rationale of planning is little understood or applied in an attempt to establish coherent systems of policies and instruments for promoting local development.

Training activities among the programmes of integral local development may be characterized generally as too irregular, impoverished and inadequate to make an effective impact in improving the quality of activities. Only Chile and Venezuela have taken steps to create training institutions which include action research and regularly scheduled intensive training programmes at a high level. The governments are generally unconcerned about the importance of training, even in countries which have been making large allocations (on a piecemeal basis among many different agencies) for integral local development activities. Perhaps one of the reasons for this unconcern is the failure to tabulate a national total of funds allocated to such programmes, and to see that their executing agencies could use common training facilities.

(b) *Analysis of the programmes*

Up to this point our interpretation of the compendium has been descriptive. Is it possible to go further in classifying the programmes, indicating their relationships with each other, or charting the direction of reorganizations?

The need for a tool to analyse programme morphology and evolution has become evident in order to supplement empirical experience with methods leading to predictive insights.

For this purpose an instrument was created by crossing two principal variables appearing in all of the programmes listed, i.e., territorial coverage and substantive complexity. These variables, each of which forms a *continuum* of programme characteristics, were subdivided into three descriptive grades. In this way a nine-cell model was created. In the horizontal dimension of "substantive complexity" are located sectoral programmes, integral programmes and co-ordinated programmes. These are postulated as progressively more complex in their organizational form. In the vertical dimension of "territorial coverage" are shown local-area programmes, regional-zonal programmes and national programmes. These also show degrees of scope which can be correlated with the number of administrative units and operational factors.

The simplest type of local action programme appears as the work of a sectoral agency in one village or localized area. This form of programme appears in the lowest left-hand cell of the model. Diagonally opposite, in the uppermost right-hand cell appears the most complex form of programme, which consists of a number of substantive activities co-ordinated at the national level. Other programme types fall between these two extremes as indicated in the other cells of the model.

As a coherent matrix for typing programmes and locating them in relation to each other, the model enables us to make a number of observations which should be fairly obvious, and can be helpful in planning and policy-making at the national level:

- (i) Any number of programmes within a nation must be considered as one set;
- (ii) All programmes within this set may have

Table 5
A MODEL OF PROGRAMME TYPES BASED ON TERRITORIAL COVERAGE
AND SUBSTANTIVE COMPLEXITY

		<i>Substantive complexity</i>		
		<i>Sectoral programmes</i>	<i>Integral programmes</i>	<i>Co-ordinated programmes</i>
Territorial coverage	National	<p>National programmes of sectoral departments and agencies</p> <p><i>Examples:</i> Cultural Missions Programme of the Ministry of Public Education, Mexico; Popular Co-operation Programme of the Ministry of Development and Public Works, Peru; Social Programme, Institute of Territorial Credit (Housing), Colombia</p>	<p>National programmes of intersectoral action administered by an integral agency in regions, states or zones</p> <p><i>Examples:</i> Project for the Integration of the Indian Population, Andean Mission of Ecuador; National Agrarian Reform Programme, Corporation of Agrarian Reform, Chile; Programme of Community Development in 17 areas, Sugar Industry Labour Welfare Board, Jamaica</p>	<p>National programmes carried out by co-ordination of ministries or departments</p> <p><i>Examples:</i> Joint Action Project for the Integration of the Indian Population in 7 Zones, National Council of Community Development, Peru; National Community Development Programme, CORDIPLAN, Venezuela</p>
	Regional-local	<p>Regional programmes of national departments or agencies or of state or provincial sectoral bodies</p> <p><i>Examples:</i> Programme of Community Action, Departmental Bureau of Public Health, Antioquia, Colombia; State Programmes of Rural Extension; ABCAR System of Credit and Rural Extension, Brazil</p>	<p>Regional development schemes or programmes of integral agencies</p> <p><i>Examples:</i> Departmental Development Programme, Arica Development Board, Chile; Programme of Community Development and Public Services, Autonomous Regional Corporation of the Savannah of Bogotá, Colombia</p>	<p>Regional or state programmes of co-ordinated agencies</p> <p><i>Examples:</i> Departmental Programme of Community Action, Departmental Council of Community Action, Antioquia, Colombia; Integral Pilot Project for Rural Development, National Council for Social Progress, Paraguay; Lerma Scheme, Lerma Development Commission, Mexico</p>
	Local-area	<p>Local or area programmes or projects of national departments or agencies or of local sectoral bodies</p> <p><i>Examples:</i> Fundamental Education Pilot Project on the Coco River, Ministry of Education, Nicaragua; Municipal Programme to Promote Health and Development, Bureau of Health and Development, Municipality of Montevideo, Uruguay</p>	<p>Local development schemes or programmes of integral agencies (and hence special or pilot projects)</p> <p><i>Examples:</i> Programme of the Committee for the Rehabilitation and Urbanization for the Barrios Suburbanos of Guayaquil, Ecuador</p>	<p>Co-ordinated projects at the local level (often pilot efforts)</p> <p><i>Examples:</i> North Clarendon (Rural) Development Project, Inter-Agency Executive Committee initiated by Jamaican Agricultural Society; Punitaqui (Area) Scheme, Departmental Committee of Consultation Co-ordination for Punitaqui, Chile</p>
<p>NOTE: As used here, the term "integral" refers to single agencies with intersectoral authority.</p>				

some eventual relationship with each other as they expand and evolve; the relationships can be harmonious and efficient, or conflictive and therefore inefficient as a result of overlapping and duplication;

(iii) Any number of local or regional programmes can be complementary so long as they do not overlap territorially;

(iv) Within a nation, region or local area, the programmes of a set (two or more) can be harmonious and efficient only if the substantive

activities of the several programmes are complementary;

(v) It follows from the points above that amplified sectoral programmes and integral programmes will be conflictive if they cover the same territories and/or the same substantive activities. Resolution of this conflict can be achieved in three ways: (a) by rationalizing the substantive content of programmes in order to make the technical activities complementary; (b) by rationalizing the territorial coverage of

the programmes in order to prevent overlapping of the substantive activities within the same area; or (c) by doing both at once;

(vi) The formulation of a policy regarding the creation or expansion of any programme either substantively or territorially should be considered in the light of its possible effect on other programmes and their relative efficiency, and should be an element of national, regional and local planning.

Theoretically it is possible to construct a model in which the sectoral programmes which have not been amplified may be distinguished from those which have been. In the present model, only amplified, integrated and co-ordinated programmes have been included. To do a full analysis of all programmes in a national set, however, the normative (unamplified) sectoral programmes would have to be considered.

It should be possible, through the analysis of the evolution or reorganization of programmes by this model, to indicate their relation to each other substantively and territorially. In most countries, the evolution of programmes historically has resulted in a number of mutations of type which may move them vertically, horizontally or diagonally within the cells of the model.

If they have not been amplified, the sectoral programmes of the central ministries should be complementary. Historically the creation of amplified and integral programmes of the kinds indicated in our study occurred for two reasons: to provide for new combinations of substantive activities, and to provide for substantive activities not previously covered. In the first case, the integral actions are in effect a multisectoral programme. These types appear in the model in the second column. They include, notably, the programmes of community development, agrarian reform, rural development and of Indian integration. In the second case, the additional substantive activities may result in the creation of a new programme which is carried out by some sectoral agency, in which its own former programme becomes substantively amplified.

The sectoral amplification of programmes or creation of integral programmes may tend to produce inter-agency substantive conflicts in the long run. As the number of national programmes of the integral type increases, the likelihood of substantive conflict among these as a group or between these and sectoral amplified programmes also increases. Programmes in the first and second columns of the model are thus potentially conflictive. It is relatively easier for

governments to find policy solutions to the conflicts of agencies within the first column of the model, or to co-ordinate these in joint action programmes of the third column, than it is to resolve conflicts of integral agencies with each other or with sectoral agencies.

4. TRENDS IN THE EVOLUTION OF POLICIES AND CONCEPTS

The compendium and analysis of programmes presented above provide an over-view of the main aspects of integral local development programmes in Latin American countries. Using these sources of information, we are able to bring the main trends of programme evolution and the relevant policy issues into sharper focus.

Even though there has been relatively little contact among the national agencies and officials engaged in these actions at the Latin American regional level, the governments are giving attention to a number of problems which are shared by most of the countries. These tendencies have usually been discussed in the sub-regional meetings sponsored jointly by the governments and the Organization of American States for Mexico and Central America, the Andean countries, and Brazil and the southern cone countries. The United Nations sponsored a workshop in which eight countries participated in 1962, a regional seminar in 1964, and a sub-regional training workshop for the English-speaking countries of the Caribbean in 1968. The Andean Indian Programme held a number of meetings of international personnel, and collaborated in the Congresses of the Inter-American Indian Institute. FAO and the Institute for Training and Research in Agrarian Reform (ICIRA) have sponsored several seminars on agrarian reform in the Latin American region. These meetings, in addition to the services of CREFAL as a clearing house for information and the publication of papers and documents by the United Nations, represent the principal channels for the international transference of experiences, concepts and technical information. The Latin American trends and policy issues in community and local development, therefore, tend to form a regional body of more or less homogeneous approaches, problems and experiments having characteristics which set them apart from the experience of other regions of the world.

In this study we have given particular attention to the organizational features of the programmes in an attempt to identify some of the common organizational and technical elements. While the types and interrelations of

programmes are important in understanding the recent trends of policy formation and changes of concept, they must be supplemented by consideration of the relation of integral local actions to regional development, the substantive content of the programmes in terms of community development principles and methods, and the implications of recent trends on research and training in this field. In this section we shall briefly review all of these aspects of the programmes as they relate to current trends and policies in the countries.

(a) *Organization and interrelation of programmes*

Study of the trends of growth and nature of programmes in the compendium and the model of analysis indicates that in the future the sectoral agencies will continue to be the preferred instruments for the execution of local integral activities. Many of the sectoral agencies have only begun to do so. For this reason the inference may be drawn from the information presented here that the sectoral agencies will continue to reshape and retool themselves for these tasks. Much of the current ferment in creation and reorganization of programmes represents the efforts of these agencies to readjust their territorial and substantive coverage so that they can contribute more effectively to national development through the mobilization of population institutions and resources at the local level.

As these agencies within the ministries amplify their functions, they tend on one hand to eliminate the reasons for the creation of additional integral programmes executed by special-purpose agencies (community development, agrarian reform, rural development, Indian integration), while on the other they strengthen the bureaucratic bases and the complexity of operations of the central government ministries. It is clear that the ministries and their agencies are in a position to absorb many of the special-purpose agencies and their programmes, and that they are quite disposed, in most cases, to accept the methods and approach of community development if they have not already done so. Governments of a number of countries are beginning to have second thoughts about the creation of new autonomous or semi-autonomous agencies which interfere with the activities of the technical services. In the past few years national parliaments and international lending agencies have begun to change their attitudes about the need for creating autonomous organisms, and have accepted the semi-autonomous status of funding bodies or operational agencies within sectoral services. Examples may be

found in Peru (SIPA, National Fund of Health and Welfare, Peruvian Indian Institute), Brazil (ABCAR), Guatemala (SFEI), Chile (CORHABIT) and Panama (Institute of Waterworks and Sewerage). Furthermore, some rural and community development agencies having integral programmes are being reintegrated into sectoral agencies without their former autonomous status as in the cases of *Cooperación Popular* in Peru and the Rural Development Institute in Bolivia. Policy discussions about the future of similar agencies in several other countries lead one to conclude that this trend towards the reduction of the number of single agencies having integral programmes will continue.

The result will be an increase of amplified programmes by sectoral services which will create special mechanisms for co-ordinated programmes of joint action. Peru recently took this step by organizing the National Council for Community Development. Guatemala and Ecuador are considering the possible advantages of creating similar organisms. On the other hand, the multisectoral programmes based on the co-ordination of a few agencies by written agreement seems to be disappearing, as in the case of the Puente Alto Project in Chile and the applied nutrition programmes in several countries.

Hence the total number of programmes will continue to increase in number. There are a number of reasons for this tendency. The physical and ecological factors in the region demand that programmes be fitted both substantively and operationally to heterogeneous conditions. The political changes in Latin America are an important incentive for creation or reorganization of programmes.¹³ As has been

¹³ The 1964 ECLA study ("Popular participation and principles of economic development . . .", op. cit., p. 255) called attention to the inclination of reformist or nationalistic political leaders and their governments to create or reorganize programmes mobilizing and channelling the forces of popular participation. These programmes have proved to be key policies of a number of new governments. In 1958 a newly-installed government created *Acción Comunal* in Colombia. In 1959 the new political generation of Venezuela initiated the Community Development Programme of CORDIPLAN. In 1964 political success by a new party in Peru led to the organization of *Cooperación Popular*. In the same year a new government in Guatemala initiated the "Joint Action" National Programme of Community Development, while Chile began its experiment with *Promoción Popular* for the same reason. In 1966 the inauguration of a new government in Colombia led to the establishment of *Integración Popular* as a modification of the earlier *Acción Comunal*. Agrarian reform laws in several countries were promulgated primarily on the basis of political considerations.

shown, the processes of socio-economic change will require continuing expansion of activities of all kinds of technical services adequately to cover the low-income rural and urban populations not yet benefiting from development programmes. As the national programmes become more complex, they will have to be decentralized increasingly in the larger countries to the regional level. This important recent trend merits attention as a special topic of discussion below.

These organizational changes may be summed up, then, as a trend toward greater complexity of sectoral activities and the practice of combining these at the national level into a "programme of programmes". For this reason, governments are more concerned about relating the already existing actions into co-ordinated systems than they are in creating additional new agencies. This accounts for the fact that fewer integral programmes have been created recently—as we noted above in commenting on the compendium—while the number of national co-ordinating mechanisms has increased. In this connexion, it seems that the governments have recognized that the integral programmes are structurally unstable, and tend to replace organisms combining executive responsibilities with co-ordinating authority. A number of organisms of this type have been discontinued or reorganized. A trend seems to be emerging to give co-ordinating bodies clearly defined responsibilities, such as surveys, planning, channelling of financial resources, administration and evaluation. The new agencies of this kind have their own budget and staff. In contrast, those co-ordinating bodies not having specific legal powers and specialized planning personnel tend to vanish.

(b) *Integral local programmes in development regions*

In view of the heterogeneity of the climate, physical features and ecology of Latin American countries, it is rather curious that planners and policy-makers have only recently begun to give close attention to the spatial factors in national development. The concept of the "development region" has not yet crystallized among Latin American planners. A number of institutions, including ECLA-ILPES, are studying the definition of this concept and its integration into global economic and social planning. Friedman suggests that the concept should be considered as one in which "development regions simply have maximum closure with respect to

a given problem set".¹⁴ Regionalization of a country (or the continent) implies the identification of areas in which development programmes have maximal substantive similarity.

Available information indicates that the technical services in most countries have organized their administrative hierarchy internally down to the local level without taking into account the principles of regionalization. The agencies seldom conduct diagnostic studies by regions, and do not generally yet see the need for joint substantive programming within regional territorial units. In community and rural development programmes activities are usually organized on a village-by-village basis, as the compendium indicates, or by aggregating a number of local actions as administrative or operating areas. The present techniques of programming do not yet reflect the use of "problem sets" as the essential concept of development regions.¹⁵

A new trend is now appearing. Central planning organisms are expressing a strong concern for the inclusion of regional policies in national planning in many countries. This tendency may be observed in the current interest of planners for techniques of regional analysis, study of regional resources and interrelation of regions in the elaboration of national development strategies.

Two cases merit special attention because of their significance in restructuring local programmes on a regional basis. They represent two different types of regional mechanisms for co-ordinating the activities of sectoral or integral programmes. In both cases they indicate the practicability of disaggregating national pro-

¹⁴ *Regional Development Policy* . . . , op. cit., pp. 43-44.

¹⁵ Participants in a recent Caribbean workshop agreed that, "in the context of the social structure in the region, the concept of a self-sufficient village community was not realistic; a closer blending of community development and area development was indicated" (ECLA, "Preliminary Report of the Regional Training Workshop on Community Development and Local Government", Port-of-Spain, 1968, p. 14). International experts at an inter-agency meeting reached the conclusion that ". . . the creation of integral regional development projects is a positive trend which can resolve many of the problems of planning and co-ordination of local activities, when they grow out of the strategies and directives of national plans and when agencies are in harmony about criteria for the definition of regions". ECLA, Regional Inter-Agency Meeting on Community Development, final report, Santiago, 1968 (mimeographed), p. 7. The technical aspects of programming by zones are discussed in "Concepts and Methods of Area Programming for Community Development", *Economic Bulletin for Latin America*, vol. XII, No. 1 (May, 1967), pp. 2-31. Special attention has been given there to the techniques of social surveys, diagnosis and policy formulation by areas.

grammes into smaller sets which are coherent at the regional and local level.

In Mexico the application of these principles of regional planning has made possible the breakdown of a programme covering parts of a number of states which lie in the Lerma River basin into integral local joint actions based on inter-agency co-ordination. In the Huicot area project, for example, the instruments of action will be local "development centres" organized to provide multisectoral services by the Lerma Commission, National Indian Institute (INI), state governments and private agencies. The functions of PLAT will include research, planning, promotion, co-ordination and administration. Execution of the sectoral activities will be left to INI and state governments.¹⁶ Funds for this programme come from a number of sources, but principally from the federal government, the Commission's revenues and a loan of the Inter-American Development Bank.

In Chile the integration of local development activities into regional systems will be achieved primarily through decentralization of public administration, giving greater authority and power of decision to regional offices. The co-ordinating mechanisms at the regional level will be improved through participation of regional organisms with those of the central government. Where required, autonomous regional development agencies will be created consistent with policies of national integration. Regional planners have completed studies leading to priorities of action, definition of growth-poles for integrated urban-regional development, and identification of resources which will to a large extent determine the complex of activities to be undertaken in the eleven regions in Chile.¹⁷

These policy developments respond to the requirements of the federal governmental system of Mexico and the unified system of Chile. In the Lerma basin the regional commission has chosen to take the role of planning, co-ordinating and administrative body. In doing so, it has avoided the problems which often appear when an agency simultaneously executes integral activities and attempts to co-ordinate the work of other agencies. In the Chilean case, the regional co-ordinating mechanisms can be created by establishing a "programme of programmes" through decentralization of sectoral activities and planning for their substantive complemen-

¹⁶ Plan Lerma de Asistencia Técnica (PLAT), *Operación Huicot* (México, 1966), pp. 179-195.

¹⁷ Presidencia de la República, Oficina de Planificación Nacional (ODEPLAN), *Política de Desarrollo Regional* (Santiago, 1968), p. 31.

tarity at the regional level. Both of these programme types appear in the third column of our model as two alternatives for breaking down complex national programmes on a regional territorial basis.

(c) *Community development methods as substantive activities*

The trend toward the use of community development principles and methods by sectoral agencies is a widespread feature of integral local development programmes in Latin America. We have seen in this study that such methods have been used as an amalgam or common denominator to bind various kinds of substantive activities together as elements of a local joint action system. Although this practice has become common-place, the substantive content of the community development methods differs among programmes and among countries. It is not yet a standardized body of skills. It has been diffused in part by transference and adaptation of international technical assistance agencies, and in part by the professional or sectoral usages within countries. Although a good deal has been written about the relation of the technical services to community development, relatively few substantive explanations can be found of the community development methods component itself.¹⁸

Theoretical discussions of community development programmes usually begin with two

¹⁸ In addition to the document *Community Development and Related Services (Official Records of the Economic and Social Council, Twenty-fourth Session, Annexes (Geneva, 1957), agenda item 4)* the United Nations Secretariat has recently circulated the paper "Policy issues concerning the future evolution of community development" (ACC/WGRCD/XV/Working Paper No. 2, New York, 1968), which contains a discussion of the methods of community development (pp. 28-41). Another United Nations publication, *The Social Training of Front-Line Rural Development Workers* (ST/SOA/46, New York, 1962), also enumerates a number of substantive activities included in community development methods. Nevertheless, it is more common to find publications which incorporate community development methods as activities for introducing social change and development at the local level into the various sectoral disciplines. The role of outside agents of change of all kinds in the introduction of social change and development at the local level was discussed in the *1965 Report on the World Social Situation* (United Nations publication: Sales No. 66.IV.7). The role of the technical services as sectors, as well as strategic or integrative approaches in social planning and development were presented in "Social development" and 'social planning': a survey of conceptual and practical problems in Latin America", *Economic Bulletin for Latin America*, vol. XI, No. 1 (April 1966). The Venezuelan Centre for Training and Applied Research in Community Development (CIADEC) has begun studies of methods and techniques in the last few years.

basic assumptions. First, village communities are considered a predominant and widely distributed social module for integral local development activities. Secondly, it is taken for granted that the various technical services at the village level can be most effectively provided by an integral programme centred in a single agency to which other sectoral activities may be related in some way. From these premises a number of organizational and methodological guidelines have been derived, not altogether appropriate to the Latin American setting.

In most under-developed regions, these programmes utilize a number of multipurpose village-level workers, *animateurs* or leaders. The essential difference between the approach of local integral programmes in Latin America from those of other parts of the world lies in the rejection of the use of the polyvalent change agent. As we have seen, Latin American agencies are willing to accept the need for a wide range of comprehensive technical activities, but they prefer to organize the local action system as an interdisciplinary team of professionals or technicians, all of whom are qualified to apply the community development methods as practical skills for working with local groups. When it is necessary to amplify the substantive content of the sectoral programmes, the agencies simply add personnel from other professional disciplines to their staff. In doing so, the organisms practice internal substantive co-ordination, scheduling the activities of their personnel to fit the needs of local areas and balancing the numbers and kinds of technicians required.

The agencies responsible for the employment of community development principles and methods can be organized as integral special-service agencies, or the activities can be assigned to a number of sectoral agencies. In either case, the community development methods are regarded as a body of supplementary professional skills. The training of personnel for these activities usually has followed the pattern of teaching the substantive skills used by other disciplines in addition to the general concepts and principles of community development.

The substantive content of such methods is usually regarded as including (i) social surveys and diagnoses; (ii) microplanning and programming of operational processes at the local level; (iii) improvement of communications among local associations, local governments and technical agencies; (iv) community organization and institution-building; (v) training of leaders and sub-professional technicians of vari-

ous kinds, and (vi) evaluation and review.¹⁹ However, there is little evidence in the compendium that the technical services have considered these specific substantive activities in the division of labour among sectoral agencies.

The two countries which have made sustained attempts to do so are Venezuela and Peru. In the first case, the National Community Development Programme has been based on the operational concept of interinstitutional promotion at all levels by interdisciplinary teams whose functions are specifically assigned by a division of labour among agencies.²⁰ In the application of these techniques, CORDIPLAN, with the technical assistance of ECLA, has developed a programming method based on operational sequences of substantive activities. The model by which this co-ordination may be achieved in a complex system involving local groups, technical services and private agencies has been tested in agrarian reform settlements and is now being applied more widely by CORDIPLAN.²¹ This technique permits the programmers to indicate the specific activities to be carried out by each agency and its technicians.

The policy followed by the National Council of Community Development in Peru is similar. The Council was formed by the technical services themselves, and it has defined the substantive activities of each member agency in the seven zones of joint action. Zonal co-ordinating councils resolve the problems of substantive co-ordination round the table in monthly meetings on the basis of policies established by the national Council. In the Peruvian Indian Integration Project, the specific community development activities mentioned above have been assigned to several agencies. The Peruvian Indian Institute conducts surveys, research and evaluation studies. Microplanning and leadership training are the functions of *Cooperación Popular*. The General Bureau of Communities is charged with the administrative organization of communities.²²

In the joint action approach of Peru and the co-ordinated approach of Venezuela, it is unnecessary to assign the responsibility for community development methods as a substantive

¹⁹ "Policy issues . . .", op. cit.

²⁰ CORDIPLAN, *La participación popular como recurso del desarrollo e instrumento de integración nacional* (Caracas, 1967), p. 35.

²¹ CORDIPLAN, *Algunos elementos para la programación de actividades de desarrollo de la comunidad y participación popular en la consolidación de asentamientos campesinos* (por Rubén Utria), Caracas, 1965.

²² Lawrence B. Moore, *Hacia un modelo de evaluación para proyectos de desarrollo comunal* (Pan American Union, Washington) (in the press).

activity to any one agency. They can be shared by a number of organisms. However, an alternative approach would be that of creating an agency to carry out these functions in national and regional joint action programmes. A United Nations evaluation mission to Colombia recommended that the substantive role of *Acción Comunal* be redefined in this way.²³ That agency in the Ministry of the Interior would then have specific responsibilities for microplanning, community organization and leadership training.

Training and research would be the functions of a special institute to be created for this purpose as in Venezuela. If this policy is followed in Colombia, it will be the first country to have a sectoral agency whose major functions are the application of community development methods as a substantive field within comprehensive local development programmes.

(d) *Research and training*

Integral local development with the application of community development principles in such programmes is not some "other kind" of development. As we have shown, it consists in localizing the comprehensive set of national development actions so that communities, groups and associations may participate directly and in organized fashion. This conceptual approach implies that specialized personnel should be available for planning and execution of technical activities in this field.

Only two countries have created special institutions for training such specialists. As shown in the compendium, most programmes have carried out occasional training courses, usually with the active assistance of international and bilateral agencies. But in Venezuela the agencies responsible for substantive activities at the local level have joined with CORDIPLAN and the United Nations Special Fund in organizing the Centre for Training and Applied Research in Community Development (CIADEC) in the Universidad del Oriente (Jusepín). Chile has established the Institute of Training and Research in Agrarian Reform as a joint project of the Agrarian Reform Corporation and the United Nations Special Fund. Both centres provide a variety of courses for specialization, advanced training and research in agrarian reform, rural and community development, and related fields.²⁴

²³ United Nations, "De la acción comunal al desarrollo de la comunidad; informe de la misión evaluadora de las Naciones Unidas sobre desarrollo de la comunidad en Colombia" (Bogotá, 1967) (mimeographed).

²⁴ ECLA, Regional Inter-Agency Meeting on Community Development, final report (mimeographed), pp. 7-11.

Additional training courses were provided for more than a decade at CREFAL, the UNESCO Regional Fundamental Education Centre for Community Development, in Mexico. The Organization of American States offered courses for several years in Bolivia, Mexico and several European countries. At present the Latin American Institute for Economic and Social Planning is considering courses in social planning for 1969 and in regional and local development for 1970, in which integral local development programmes would be included.

The Latin American experience in community development training has not been altogether satisfactory to the countries or to the international agencies. CREFAL found that its work over some fourteen years demonstrated that the differing situations of the countries would not admit of a single generalized treatment. The development activities at the local level for limited geographical coverage or small numbers of people did not bring about the structural changes required for a "take-off". It was concluded that better results could be achieved by attempting to integrate activities at the local or sectoral levels by linking these with more comprehensive schemes. As a result, the community development approach—which had been conceived as universally effective—should be regarded as a method of action to assure popular participation and its co-ordination with efforts of the public sector, rather than as autonomous programmes with inter-sectoral objectives.²⁵

Consequently, in the organization of the Venezuelan training programme greater emphasis has been placed on the comprehensive methods of introducing social change and development at the local level by agencies working in co-ordinated programmes whose basic concern is popular participation. Special attention has been given to action research and experimentation in the field in studies of areas, institutional factors and techniques. The activities of the Centre are closely tied into the work of CENDES, the Centre for Development Studies, in research on guided social change, the work of the various technical services and the ongoing planning and co-ordination of programmes by CORDIPLAN. Moreover, the Jusepín Centre has been training personnel for both rural and urban programmes.

Unlike the training programmes of the past, which stressed the eclecticism of community development and formation of multipurpose practitioners by integrating a variety of tech-

²⁵ *Ibid.*, p. 9.

nical skills, the trends in current instruction at both CIADEC and ICIRA emphasize greater specialization in survey and analysis of local areas, planning, operational administration and evaluation of programmes. Personnel receive a more thorough preparation in the social sciences, techniques of co-ordination and inter-sectoral programming.

CONCLUSIONS

Adapted in different ways to the heterogeneous physical, socio-economic and administrative conditions of Latin American countries, many programmes have emerged in the recent past having the common characteristics of (a) localized territorial coverage by the operational units; (b) multisectoral activities; and (c) working methods based on the principles of community development. A study of these programmes revealed several trends and policy issues. The proliferation of such programmes is likely to continue for some years more. The principal types of programmes sharing in this expansion will be the programmes of sectoral

services of central government, co-ordinated or joint action programmes at the national and regional level, and local urban programmes.

The dichotomy of rural and urban programmes does not appear to be breaking down, although the study indicates that an integration of these may be desirable within regions. Rural programmes are increasing more rapidly than urban programmes. Integral programmes carried out by autonomous agencies may be expected to decline in number and importance as they are absorbed by ministerial agencies. As the tendency to create co-ordinating mechanisms continues, some agencies specialize in specific aspects of community development methods as substantive activities. It appears likely that this practice will become more common, thus creating a demand for a large number of specialists in these fields. The continued growth of integral local programmes, especially at the regional level within countries, should therefore lead to the creation of interdisciplinary national training and research centres patterned on CIADEC, in Venezuela, and ICIRA, in Chile.

THE URBANIZATION OF SOCIETY IN LATIN AMERICA

The development of social research in Latin America is increasingly hampered by the inability of the scientific techniques in use to capture the essence of the social situation and its historical background in Latin America, not only because they were generally elaborated in and for different societies and historical contexts, but also—and chiefly—because their basic assumptions are inappropriate. They are intended to deal with a set of problems which are no longer fully relevant, and the question at issue is the historical significance and scientific effectiveness of a system of investigating the social situation.

In these circumstances, the present situation and the development of research are creating a new set of problems. These problems are as yet vague and ill-defined, and if they are to be clearly seen, the isolated attempts to formulate them must be co-ordinated and integrated. These attempts should not consist solely or mainly in revising specific research concepts and techniques, although that may also be necessary. The basic task is to develop a way of looking at the situation which is capable of prompting questions and systems of questions that will effectively capture its shifting and complex nature.

A. URBANIZATION IN SOCIETY OR URBANIZATION OF SOCIETY?

The point of departure for this discussion is that there are at least two basic problems in research on urbanization in Latin America which have not yet been sufficiently considered:

(1) Although it is increasingly asserted that urbanization is a multidimensional process—with references to demographic, economic, socio-cultural and other “aspects”—it is not yet clear how these “aspects” are interrelated, or how, taken as a whole, they are related to the over-all process of change in society;

(2) In practice, the concept is still restricted to a specific phenomenon: the trend towards the predominance of the urban (and particularly city) population over the rural population.

This problem is particularly acute in research on the process of change in society. The specific questions elicited by the approaches generally adopted, which are essentially analytical in nature and lay most emphasis on stability and maintenance of the *status quo*, mean that the dialectic of history can be treated only in an allusive and totally ineffective way.

Studies on urbanization in Latin America come up against this difficulty. Although it is generally admitted that urbanization can be understood only as part of the over-all process of change in society, it is still studied in isolation, and although reference is made to possible connexions with other phenomena of change, these phenomena are also studied separately. The admission is, therefore, purely a formal one, and the intention to investigate urbanization from the standpoint of over-all social change is trammelled by the very nature of the reasoning underlying the approaches now in use.

It is, therefore, worth while to explore other possible approaches to urbanization which will make it possible to investigate its formal aspects in the context of the over-all process of change in Latin American societies.

At the same time, attention is drawn to the development of a “way of life” in the cities which is different from that of the rural localities and which recently has to some extent been propagated among the rural population itself, although only in certain aspects. This latter phenomenon is frequently equated with “modernization”, a concept so ambiguous and ill-defined that it can hardly be used effectively in research.

The shift in the relation between the urban and the rural population and the development of an urban way of life thus appear to be the two most important conceptual elements in the process of urbanization, although it has not yet proved possible to integrate them in one coher-

ent body of theory. The mere superposition of one element on the other, sometimes within the same approach, sheds little light on the nature of the phenomenon. Consequently, research cannot go beyond the analytical; it cannot reconstruct the true place of urbanization in particular within the over-all process of social change, nor can it aspire to explain and interpret the historical significance of urbanization within a society, except allusively.

Starting from an essentially analytical system, the phenomena of change can only be taken in isolation, despite formal recognition that the phenomena of change affecting the basic pattern of social life are essentially interdependent and all have the same type of relationship to society as a whole. Thus, in the prevailing conception, i.e., in the conception which actually guides research, urbanization appears as one process among others, whether it is a question of the trend towards the predominance of urban over rural population or of the development of a way of life, as yet ill-defined, proper to urban settlements, and particularly cities. Urbanization is thus separated from changes in the economic, social, cultural and political structure, although linked to them, and includes only a small proportion of the changes in the ecological and demographic structure. Therefore, it cannot be isolated only from the analytical and methodological standpoint, but also in actual research, i.e., in the systematic reconstruction of its place, characteristics, function and significance in society. In short, urbanization is a process which takes place "in" society, rather than a process "of" society.

The difference between a process which takes place "in" society and one which is "of" society is the difference between: (a) a process which takes place in one of the basic structural orders, which affects society either wholly or in part but which does not necessarily depend on one of the other basic structural orders (in other words, a process which affects one of the urban-rural poles of a society, but with only indirect implications for society as a whole); and (b) a process which takes place in the whole fabric of society, i.e., through each of its basic structural orders, which are broken down into specific sub-dimensions in each case, but which in actual fact constitute a single process.

An example will help to make the distinction clear. If a new technological element is introduced in an area of economic activity, the consequences of this innovation will take the form of changes of greater or lesser importance in the industry in question, which will have re-

percussions on other spheres of activity and on the social relationships between groups and between individuals. However, changes of this type and dimension do not depend on corresponding alterations in the other basic structural orders, although over the long term an important technological innovation could generate processes of change in the whole fabric of society. In such a case, the changes are changes "in" society as a whole.

Despite its importance and the range of its effects, the application of a land reform programme, however radical it might be, could not be considered as a process "of" society as a whole, unless the dimensions of the reform involved the political, social, cultural, demographic and other orders even though the reform might lead to important changes in society, some of which would be direct effects and others indirect, i.e., linked to land reform only through intermediate processes. Urbanization of the economy, demographic and ecological urbanization, socio-cultural urbanization and political urbanization, on the other hand, are not separate processes, despite the specific form each dimension of urbanization may take, but processes whose elements are key trends are directly interrelated. In other words, it is inconceivable that one dimension of urbanization could take place without the others, whatever the degree and particular features of the process in each dimension.

Starting from the mainly analytical approaches to urbanization, research on the interdependence of urbanization and other specific processes is obliged to consider these processes as "consequences" or "factors" of urbanization, which to some extent presupposes treating the urban phenomenon as social statics rather than as social dynamics. Once again, this is an analytical approach which tends not only to maintain the formal, analytical and methodological isolation of urbanization, but also to transform the historical phenomena practically into fixed data, despite their dynamic character.

It is not easy to find a substitute for this type of conception and research, and the purpose of the present paper is merely to explore other possibilities to the extent allowed by the present development of research.

Nevertheless, even within the limits of the theoretical and methodological model in question, the scope and depth of the traditional field of research is constantly being extended, incorporating problems or phenomena which used to be considered as "consequences" or

“factors” external to urbanization itself, and abandoning the narrow limits of the urban sub-society — ecologically and demographically speaking—to study the interdependence of the processes taking place in the city and in the rural areas, within the process of urbanization. In this continually expanding field of research, a number of basic mechanisms relating to the

interdependence of the various dimensions of urbanization are now becoming apparent, and it is possible to grasp the nature of the process itself in a way which is more closely integrated with the over-all process of change in society as a whole. It is thus now possible to attempt a reconsideration of urbanization on the basis of society as a whole.

B. URBANIZATION AND THE OVER-ALL PROCESS OF CHANGE IN SOCIETY IN LATIN AMERICA

There are two fundamental conceptual questions which arise in connexion with urbanization in Latin America, from the standpoint of society as a whole: the nature of urbanization and its relationship to the dependent situation of the different Latin American societies.

1. URBANIZATION AND OVER-ALL SOCIAL CHANGE

When attention and research were first directed towards urbanization in Latin America, there was a tendency to explain the process primarily through the high rates of population growth in the societies of the region, and the concept of “super-urbanization” was born to stress the idea that population growth in the urban areas was to a large extent unconnected with changes in the economic structure and, in particular, in the urban economy. It now seems undeniable, however, that the present trends of ecologico-demographic change would have been substantially the same, even if the population growth rates had followed a neutral pattern. In other words, although high population growth rates in the context of a society with a rural economy in a critical state and a slow-growing urban economy help to explain the dramatic and extreme nature of the growth of the urban population in many Latin American countries, the fact remains that the shift in the relationship between the urban and rural population is linked to the changes in the relationship between the urban and rural economies, and that urbanization includes, above and beyond these two specific processes, all the changes in urban-rural relationships and most of the changes taking place at each of these levels or in each of these sectors of society as a whole.

Hence, urbanization should not be considered as merely one of the processes of change in urban-rural relationships, nor as covering only those changes taking place in the strictly urban environment. On the contrary, each of these processes is but one dimension of the general

process of the urbanization “of” society as a whole, and it is society as a whole that must be taken as the point of departure in order to explain and interpret the general process of urbanization properly.

From this standpoint, urbanization is not viewed as a specific process which is separate and distinct from the socio-economic, cultural, political, and ecologico-demographic processes, despite their interdependence. It is a dimension of the over-all process of change in society, which is expressed through the processes taking place in each of the various structural orders into which, for analytical purposes, society as a whole can be divided. Society as a whole, for its part, can be thought of as a fabric made up of the different structural orders: the economic, social, cultural, political, and ecologico-demographic. All these basic structural orders are interdependent in relation to each other and to society as a whole, but at the same time they all have a relatively autonomous existence and pattern of change. Hence it is not possible to assume that the different basic structural orders of society are “systematically”—i.e., level by level and element by element—interdependent. In the constitution of each of these orders a part is played not only by functionally necessary elements, but also by elements which have their roots in particular development in the history of the society and which play or may play a decisive role in the actual historical process.

When society as a whole embarks upon a period of historically significant change, the process is channelled through each of its basic structural orders and is affected by the specific characteristics of each of those orders at each moment of the historical process. Over-all change is, therefore, a single process, but one that takes the form of a number of different processes linked together according to the particular circumstances characterizing each of the basic structural orders and the historical

circumstances of the society as a whole. This means that the specific processes corresponding to each of these orders may take place at levels very different from those corresponding to the remaining orders.

In this context, if it is accepted that the ecologico-demographic changes implicit in urbanization are related to changes in the urban-rural economic relationships and to shifts in urban-rural relationships in each of the basic structural orders, and also to changes occurring in these orders within the urban and rural subsocieties, it is possible to advance an over-all explanation of the process of urbanization and to check that explanation empirically. Urbanization can thus be viewed as a process "of" society as a whole, taking place through each of its basic structural orders and as a dimension of the process of change occurring in each of those orders.

In other words, in the process of change taking place in the economic structure there is an "urbanization" dimension, just as there is in the processes of change in all the other structural orders. There is, therefore: (1) urbanization of the economic structure; (2) urbanization of the social structure; (3) urbanization of the ecologico-demographic structure; (4) urbanization of the socio-psychological cultural structure; and (5) urbanization of the political structure. In practice, all these dimensions are interrelated to the extent that the basic structural orders of society and their processes of change are interrelated, according to the particular framework of society as a whole and each of its structural orders. The over-all process of urbanization is the result of the specific ways in which the various dimensions of the process in each of these orders are interrelated or linked in practice.

This way of looking at the phenomenon of urbanization in Latin America makes it possible for research to highlight the multidimensional nature of the process, its mechanisms and the specific ways in which the various dimensions are related to each other and, together, to society as a whole. To the extent that the different basic structural orders are relatively autonomous, within this fundamental interdependence, the process of urbanization may take place at very different levels and with different characteristics in each of the structural orders.

In most Latin American countries, for example, the growth of the urban population and its trend towards predominance over the rural population is much more apparent than the growth of the urban economy, and massive

inter-urban and rural-urban migration affects the development of an urban, socio-cultural structure. This would seem to indicate that the growth of the urban population bears very little relation to what is happening in the urban economy and in urban and rural society. Nevertheless, a more detailed consideration of the urban population's growth trends and its unequal distribution among the different areas and cities in all Latin American countries immediately reveals that these trends closely follow the growth of the urban economy and the concentration of that economy in certain areas or cities, with the result that the large concentrations of urban population and, consequently, the target of migratory flows, are precisely those areas and cities where the urban economy is growing most rapidly and undergoing the most intensive process of change.

It is evident, therefore, that there is a clear relationship between the processes of growth and change of the urban economy and the rural-urban economic relationships implicit in that process, on the one hand, and the growth of the urban population and the consequent changes in urban-rural ecologico-demographic relationships, on the other. It is clear, however, that in every case the latter process far outstrips the former in scale and pace. This is not because the two processes are not linked historically, but because they take place at different levels according to the particular characteristics and development of each of the respective structural orders.

Thus, because of the progress made in sanitation and medicine, over-all death rates have shown a relative decline in the Latin American countries, but, given the prevalent social and cultural characteristics in most of these countries up to the present—a predominantly rural population, pre-industrial norms and values, the hegemony of catholicism in religion, etc.—there has been no similar trend in the birth rates. Consequently, the over-all population growth rates continue to climb in most of the countries, and particularly in those which embarked relatively late on the path of development of the urban industrial economy.

In most of these countries, moreover, the organization of production and general economic activity in most of the rural areas are, as the result of a number of familiar factors and historical situations, still at an economic and technological level that is very backward in relation to the economic system of which they form a part. Because of this situation, when a real process of expansion and modification of the

urban economy is under way, with its usual tendency towards concentration in certain areas and cities and with the technological and entrepreneurial trends observable of late in industrial development, changes in the economic and non-economic urban-rural relationships are, under present conditions, inevitably weighted in favour of the urban areas. Consequently, the rural population tends to be pushed outside the former economic structure as a result of the impact on the rural areas of the expansion of the urban economy, and large numbers of the rural population seek to become part of the urban economy and society, although only very few succeed in doing so.

Thus, the extremely high over-all population growth rates, together with the effects of the expansion and modification of the urban economy on the rural economy and society, push to a dramatic extreme the growth of the urban population generated by changes in the urban-rural economic relationships in the process of expansion and modification of the urban economy. The growth of the urban population, as such, is a correlative of urban economic growth. The imbalance between the two processes is mainly the result of the factors mentioned above, but this imbalance should not obscure the close relationship between them, and the only way to keep sight of this relationship is not to consider either of them separately. For this purpose, the point of departure must be society as a whole and the over-all process of change in society through each of its basic structural orders.

Naturally, if consciously or unconsciously the traditional functional and structural approach is maintained and society is envisaged as a "systematic" structure, functionally integrated level by level and component by component, the disparities between the dimensions of the same process in each of the basic structural orders will be inexplicable or could only be explained for each one separately.

It is worth noting that urbanization, like many other problems, has gradually become a subject of research because of the striking nature of one of its dimensions, i.e., population growth in the cities, with its present economic, social and political repercussions: the formation of "marginal" populations, unemployment and under-employment, and the provisional political status of the new urban settlers who have no place in the socio-economic structure created by industrial development. Consequently, prime importance in research has been given to this particular aspect of the urban phenomenon.

In view of the slight development of the urban economy, particularly of industry, the tendency has been to regard urban population growth as a phenomenon that is apparently unrelated to the urban economy, or to the corresponding changes in the rural economy, the changes in the urban and rural societies, the changes in society as a whole in its relations with other societies, etc. From this standpoint the first and most obvious explanation could only be the huge increase in the growth rates of the total population. Because of certain characteristics of the process, it was forgotten that urban growth had already been a feature of some Latin American societies whose over-all population growth rates were quite low or tending to decline, as in the case of Argentina.

In Argentina, other demographic factors such as heavy immigration from Europe, combined with the particular way in which the country was placed in a dependent situation in the post-colonial era, indicate that this is an exceptional case. Nevertheless, the huge population shift from the interior to Buenos Aires in the period immediately preceding Perón's régime—when the over-all population growth rates remained low—and the subsequent growth of cities such as Córdoba fostered by an intensive process of industrial development (under the national demographic conditions for the country as a whole) show that Argentina's urban population increased in spite of the relatively low rates of total population growth. It was the same in Uruguay.

The huge scale of internal migration, which has led to an urban population explosion in the Latin American countries, is attributable not only to changes in the structure of urban-rural economic relations, the expansion and modification of the urban economy and the corresponding changes in the rural economy, but also to the high rates of total population growth in the socio-economic framework of under-development. Nevertheless, the present ecologico-demographic process of urbanization in these countries would probably have followed the same pattern even if the over-all population rates had been different—as is shown by Argentina and Uruguay—if the nature of the process and the specific problems encountered had been different, and if some of those problems had never existed.

Urbanization of the economy, in terms of an expansion and modification of the urban economy and an alteration in urban-rural economic relations, is necessarily accompanied by a process of ecologico-demographic urbanization,

such as an expansion of the urban population and a change in the urban-rural ecologico-demographic relations. Nevertheless, if the urbanization of the economy coincides with high rates of total population growth, extremely backward rural economies, and rural societies rooted in a pre-industrial and pre-"modern" tradition, the problems and specific characteristics of the urbanization process in the economy, in relation to the demographic characteristics of that society, will be determined by the other factors with which it coincides. It is not the trend in itself—i.e., the direction taken by a particular process—which is different, but its specific forms and manifestations, which in turn are the outcome of the historical framework in which the trend is developing.

Migration will take place whether the population is one hundred or one thousand; but while sixty would migrate in the former case, six hundred would do so in the latter, and the related problems would not only be greater, they would, in all probability, be of a different kind. Let us now consider an advanced rural economy and society. In this case, the migrating population will have different characteristics and different problems, but the urban economy will not be affected by the present-day disparities and problems. If, in addition, this situation arises in an independent country, which can deal with its problems in accordance with its own needs and resources, instead of in a dependent society where the problems have to be handled in accordance with the interests and conditions imposed by its dependent status, the results themselves cannot but be different.

In brief, it is not the nature of the phenomenon which changes, but the historical context and the particular circumstances in which it occurs. In the analysis the necessary distinction must be made between those circumstances and the phenomenon itself.

2. URBANIZATION AND DEPENDENCE

The various structural orders are not only interrelated among themselves, they are also related with and through society as a whole. Hence, a given society must not be studied in isolation but in relation to all the others with which it is linked and which form with it a specific unit within the world system of interdependence that is emerging.

The trend of events in a given society is not merely the product of its own history, but, within its particular context, is shaped by that society's mode of relationship at any given

moment with other societies, and more especially those with which it is directly linked. This leads to the second of the key problems that must be considered if an integrated picture of the general process of change, and of urban development in particular, is to be obtained, that is, the relations of one society as a whole with other societies and its place in the nexus of interrelationships.

In Latin America, the national societies comprised in the region are all, in one form or another, dependent societies within the economic and social system of contemporary capitalism, which, in its turn, is part of the world system of interdependence that is now taking shape. In other words, national societies in Latin America are characterized by belonging to a specific interdependent unit and, within that unit, by the fact that they are dependent on other societies. Their very origins and the process by which they have emerged as national entities are bound up with the development of this particular system of interdependence and their history with the history of the whole system, not only in so far as their economic characteristics but also, to an increasing extent—especially since the Second World War—as regards their fundamental structures and processes of development. It is therefore impossible to separate the internal processes of these societies from those that are inherent in their situation within the system of interdependence to which they belong. Consequently, in order to understand the process of urbanization in Latin America, it is essential to start from the idea of dependence.

It is not easy nowadays to form a clear idea of the meaning of dependence, since this phenomenon is modifying many of the elements with which it has been and still is associated in Latin American thinking, and an effort is being made to revise and restate it; moreover, this is not the appropriate place for a full examination of the question. For the purposes of the present article, it will be necessary to begin by taking a fresh look at some assumptions which are deeply rooted in Latin American thinking and research, and which make it difficult to appreciate fully the closeness of the ties between dependence and the process of change in Latin American societies.

To begin with, in most studies of Latin American problems and especially those concerned with "development", dependence is considered an external factor. It follows, then, that dependence is the relationship between two independent elements of different kinds. It is

only when thus defined that dependence can be regarded as an "external obstacle" to the development of the Latin American societies, in individual cases or in the region as a whole.

It must be remembered, however, in the context of dependence (and with certain reservations) that although the centres of power that hold sway over the dependent societies are geographically outside them, and, in that sense, are external, their interdependence moulds and determines existing structures and events within the dependent societies, and the centres of power therefore have interests and support within these societies, and some similarities with them. Hence not all that exists or takes place in a dependent society is simply a reflection of the adjustments and problems that stem from the struggle with external obstacles; it is the direct and indirect result of the dependence manifesting itself from within, with an impact that is "in", not merely "on", the internal organization of the weaker societies. Dependence does not affect a dependent society, only, or even mainly, externally. It acts within, shaping and directing the society's fundamental trends and the nature of its power structures, which thus form part of the pattern of dependence.

Far from being a set of "external factors" blocking the independent development of a society or group of societies, dependence is therefore a nexus of relationships which are established by virtue of the close correspondence between the basic structural orders of the dependent society and the one that has come to dominate it because of circumstances in their past history (which have been or can be determined). More specifically, this means that in its basic traits and outward features, the structure of power and conflict in a dependent society is weaker than that of the dominant society and is also basically derived from and part of the dependent society's relations with the dominant society in the past.

Thus, the economic and social structures that exist in any one of the Latin American countries, whatever the specific differences between them, are so constituted as to conform to the characteristics, requirements and trends of that country's relations with the dominant societies and they change *pari passu* with the changes in those relationships.

The idea of dependence as an external factor would be valid if the relationships in question were those of an independent but undeveloped society with an equally autonomous but powerful society. Cuba's present relationships with other countries are a case in point. The eco-

nomie blockade of Cuba is an external obstacle to its development, while its current economic and social structure no longer corresponds to such structures in the other countries. Dependence is thus not merely a set of factors external to a particular society, but the whole web of the connexions between the basic structure of a weaker society and that of a more powerful society. In this sense it is equally an "internal" phenomenon.

The second point, which is closely linked to the first, is that dependence is usually taken to mean a group of unilateral actions and beliefs or attitudes in one or more powerful societies which exert an influence over other weaker nations. Thus, what is generally understood by the term "economic imperialism" is a body of unilateral actions by virtue of which a powerful society dominates a weaker one. The economic and social systems constituting contemporary capitalism are not only a way of organizing production and social power in general. One of its distinguishing features is precisely the domination—not only in the economic sphere—of the less developed by the more advanced capitalist societies. Viewed from this angle, dependence is a system of "interdependence" between two levels of capitalist societies, in which the more advanced plays the dominant role, and its essence is thus the very system as such of power relationships between the different levels of society and not the unilateral domination of the weak by the powerful.

As in all power relationships, dependence posits an exchange of actions between two end points, the actions of the dominated societies being directly conditioned and controlled by those of the dominant or metropolitan societies. But it also happens that events and developments in the weaker countries have direct or indirect repercussions on the dominant societies themselves, although the latter's independent position prevents such repercussions from having an immediately decisive effect.

If they did not take place within a system of reciprocity and correspondence between the rulers and the ruled, relationships between capitalist societies at different stages of development would not be dependency relationships. They would simply be relationships between two autonomous societies, however incompatible and unequal these might be. The characteristic pattern of the interdependence between a dominating and a dominated body within the same structural unit also presupposes that specific changes at either end of the relationship will be followed by corresponding modifications in

the relationship itself. So long as one pole remains supreme, any changes that take place in it will tend to preserve its supremacy throughout the variations in the interrelations of the two. Nevertheless, changes in the dominated society will generally lead to changes in the system of relationships, and may go so far as to end the state of dependence altogether.

When the balance of power between the dominant societies shifts as a result of historical circumstances, or of technological progress and the specific characteristics of the organization of production and social power in each one, the role of the dominated societies in the system of interdependence alters in obedience to the new requirements and patterns. In the same way, the changes that take place in the organization of production and its corollary, social power, in response to modifications in the dominant system alter the weaker societies' mode of participation in the system of dependence.

In Latin America, all the national societies (with the exception of Cuba) form part of the system of interdependence that is characteristic of contemporary capitalism, although in differing ways and degrees. Nevertheless, they do not fit into the system in the same way or at the same level. Hence, each one's mode of participation is contingent not only on the demands of the dominant system, but on its own internal situation, which is a product of its past history and former mode of participation in the system of dependence.

It would be wrong, therefore, to regard dependence as being merely a set of unilateral actions whereby one society dominates another, since that would mean that the dependent society is united in its opposition to the dominating society. This is far from being the case; as the variables and major trends of the dependent society's internal structure are conditioned by its dependent role and the changes that have occurred in this role throughout its history, they embody fundamental conflicts which do not derive solely from the general system of social domination but are inherent in the correspondence between the dominant internal interests and the broad interests of the system of dependence. Thus, the inner tempo of the dependent society parallels that of its relations with the society on which it is dependent, or, in other words, the profile of the dependent society as a whole depends on the profile of its relations with the dominating society or, more specifically, with its centres of power.

Because dependence has been considered an "external factor", the studies that have been

made of the basic processes of change in Latin America, and in this particular case, of urbanization, have failed to attach sufficient importance to the system of dependence and the changes in it as one of the main reasons for the trend pursued by the processes of change. It also explains the deep-rooted tendency in Latin American countries to study those changes as if they were taking place in autonomous societies and urbanization had very little to do with their dependent status.

Nevertheless, the increasing complexity of the problem has led to deeper investigation, which has brought to light the fact that the main elements in the trend of change are closely bound up with the changes in the system of dependence in each country and in Latin America as a whole.

In seeking the mechanisms by which the processes of ecologico-demographic urbanization are interwoven with those of economic urbanization, it was found that the latter also were affected by the changes in the relationships of economic dependence. Similarly, the processes of socio-cultural urbanization involved in the development and transformation of urban societies and cultures were associated as much with the growing dependence of the Latin American nations on the dominant metropolitan societies as with the increasing correspondence between the dominant culture and social organization in those societies and in Latin America.

Hence, if the processes of change in Latin America are not to be misrepresented by an incomplete and therefore distorted interpretation of the facts, they must necessarily be studied as part of the sociology of dependence. This applies to certain questions of detail as well as to the key factors underlying the specific trends that mark the tide of change. If this is to be done, social research must be constantly aware of the past. To a great extent, the history of the Latin American countries may be regarded as the history of their dependence. This explains why current developments in these countries in terms of the social processes that are taking place are unintelligible without reference to the development of their dependence from past to present.

For instance, one of the main sources of problems in latter-day urban development is the relationship between the growth of the towns and the growth of industry. Although manufacturing industry began to develop towards the end of the nineteenth century in Latin America, it did not get into its full stride until after the

First World War, and more particularly in the post-Depression era. Moreover, it did not develop at the same tempo in all the Latin American countries, and its pattern of growth bore little resemblance to the form in which industries are now being established or expanded in those same countries.

What is known as the process of import substitution took place mainly in Argentina, Brazil, Chile, Mexico and Uruguay, though in differing degrees. It was largely due to a deterioration in the economic dependency relationships between those countries and the United States. The sharp contraction in commodity exports to the United States and European markets, as a result of the financial crises there, led to a severe cutback in the consumer manufactures imported for what was already a fairly sizable urban population. The development of the towns in the Latin American countries had formerly been attributable to the development of a commercial urban economy, which was concentrated in a few centres so as to make for the growth of trade with the metropolitan centres—first Europe and then the United States. These trading relations had originated in the pattern of European industrial and financial capitalism at the end of the eighteenth century, and in the special position of the Latin American countries in that system when Spain and Portugal were forced to give up their colonies.

In the last twenty years or so of the eighteenth century, the shifts in the balance of power between the metropolitan capitalist countries of Europe that accompanied the growth and transformation of the capitalist system of production from a mercantile and financial economy to an industrial, financial and mercantile economy weakened and ultimately broke up the colonial system built up by Spain and Portugal and destroyed their trading monopoly in the colonies. Thanks to the changes in the trade routes linking Europe and Latin America and the technical progress of communications and transport, the countries on the Atlantic seaboard and Chile—or, to be more exact, certain centres and areas in those countries—were able to take a more direct and effective part in the new system of dependence that arose out of the decolonization. The countries on the Pacific coast, however, not only lost their hegemony in trade with Europe, but had to remain on the fringes of the new system of dependence until well on into the nineteenth century.

In this context of dependence, the colonial towns that were in direct touch with the trade routes (usually ports, such as Rio de Janeiro

and Buenos Aires, or towns such as Santiago that were close to a port) developed economically and demographically as commercial towns and their population was drawn into the consumption pattern of an industrial society and its markets, thus making for the general modernization of those countries, although in an unequal and highly concentrated way. The huge flow of immigrants from Europe to Argentina and Uruguay in particular, and later to Brazil and Chile as well, were a factor in urban development and modernization, and, to a great extent, formed part of the same over-all process.

It thus appears that the post-colonial process of urbanization which first developed in Argentina, Brazil, Chile, Mexico and Uruguay was not shaped by the internal characteristics of those societies considered individually, but by the new dependency relationships they entered into as a result of decolonization and of the subservient position of the metropolitan societies themselves in the context of European capitalism.

As those countries' ties with the metropolitan centres of power became more strained towards 1930, and they already had a fairly large urban population that had become accustomed to certain patterns of consumption based on trade with metropolitan countries, they were compelled to find substitutes for the principal consumer goods imported for their urban population. Import substitution had to be financed almost entirely by national capital, the level of technology was relatively low and the prevailing forms of business organization and management were of the traditional family type, which are reflected in the type of bureaucracy that grew up, the way in which labour relations were handled and production itself organized.

The expansion of industry gave a further impetus to urbanization in those countries, and began, in one degree or another, to transform the economic relations between the towns and the rural areas. The result was that the urban population and the major towns grew far more rapidly than elsewhere in Latin America.

In Ecuador and Peru, for instance, import substitution was later in starting, and took place mainly after the Second World War, although the first plants were set up in the nineteen-thirties. The circumstances were very different too. First, import substitution coincided with a period in which the ties of dependence were becoming stronger rather than weaker, and, for that reason, the substitution process was relatively independent of national capital. Its funds were largely foreign in origin, whether in the form

of direct investment capital, loans or financial control. It also had access to a highly-developed technology and a monopolistic type of business organization associated with international consortia, with the kind of labour relations and production processes that are needed for a monopolistic set-up and the demands of an advanced technology. In short, the growth and diversification of manufacturing industry in these countries sprang from certain modifications in their economic dependence and the increasing flow of investment towards the secondary and tertiary sectors of the economy, although the primary sector was not wholly neglected. The ensuing picture is thus one of expansion and consolidation juxtaposed with changes in the system of economic dependence.

This expansion of the urban industrial economy and its far-reaching effects on economic relations between urban and rural areas in these countries have led to the growth of the urban population and, above all, of the major towns, which were strategically placed for developing along modern lines during the previous stage of dependence, or are located in areas that have sprung into prominence as a direct result of the new conditions of dependence, e.g., Guayaquil in Ecuador and Chimbote in Peru. Meanwhile, radical changes have been taking place in the urban-rural ecologico-demographic relationships that are a concomitant of the growth of the urban population and urban economy and of shifts in the economic relationships between the two poles of the national society.

As these countries were at a disadvantage during the first major stage of the post-colonial system of dependence, the factors underlying the economic and social stagnation that was apparent throughout most of their territory were responsible for the economic and social relations and institutional set-up of the colonial era becoming even more firmly entrenched in large areas of those countries. The development of the sectors most closely connected with foreign trade and external financing—particularly in the early stages of industrialization when their dependence was increasing and taking on different forms—was so much greater in the modern and developing areas, both urban and rural, than it was in the backward rural and urban areas that the growth of the urban population was much more rapid in these countries than in those which had undergone the same process earlier. Given the nature of the trends in the growth and change of the urban economy, particularly in the process of industrial development, the growth and change of the urban

societies in Peru and Ecuador present a much thornier problem than in the urban societies of the countries where industrial and urban growth began earlier. The form which dependence has taken in the Latin American countries and the changes in this relationship are thus indissolubly linked with each stage and each trend of urban development in every one of these countries at all the decisive moments in their history.

If the urbanization of the economy in Peru (which is a determining factor in ecologico-demographic urban growth) is assumed to stem from the current changes and general increase in the country's dependence, it may be argued that dependence has been a secondary factor in the urbanization of the economies of Argentina and Brazil where urban and industrial development alike have been carried on with national capital and by national enterprises. But in certain cases dependence has continued to play a key role. It has at times prepared the national matrix to take advantage of a turn of events such as a deterioration in its state of dependence to start its industry on the road to development, involving intensive sales to the home market, the existence of already established entrepreneurial groups with the necessary capital and expertise to set up industries, and the formation of large urban centres founded on an urban commercial economy that provided a market for industry and make demands on it. In other instances, dependence has the effect of channelling investment capital into industry, modifying the modest industrial base already in existence, diversifying urban industrial production and stepping up sales, all of which speed up and change the growth trends of the urban population which, habituated to the new industrial patterns of consumption, form a market for the growing output of industry.

Thus, in studying the relationships that make up the state of dependence, it is essential to place them in a historical perspective, to define clearly the different stages of dependence and its social impact on the individual countries at each stage, and to correlate it with the shifts in the balance of power between the metropolitan countries themselves, as a result of changes in the structure of production or of world markets in the capitalist system, to mention only two factors.

As the truth of an actual situation is never abstract it is wholly academic to speak of "the" dependent relationships, "a" process of industrialization, or "a" process of urban development. It is always necessary to state exactly

what those relationships are with regard to a particular country and what types of industrial and urban development are under consideration. In short, it is not enough to sketch in the whole historical background; each process must be dealt with factually in relation to a particular time and setting. In other words, a general process must be described in terms of its specific nature and particular history at a given moment in space and time.

It is by no means superfluous to dwell on these problems, since they are not so obvious

as they appear to be. If they were, there would not be so many studies on "the" industrialization of Latin America that do little more than record the contrasts and similarities in the industrial growth of the different countries, without relating them to any recognized body of problems and, hence, without mentioning any factor other than quantitative differences in output productivity and investment the magnitude of whose various components may vary without there necessarily being any significant differences in the structure of industrial development.

C. URBANIZATION AS ONE OF THE MAJOR DIMENSIONS OF THE PRESENT PROCESS OF CHANGE IN THE LATIN AMERICAN SOCIETIES

Since the urban phenomenon can be traced back in Latin American history to pre-colonial times, it would be as well to eliminate the ambiguity implicit in the term "urbanization process". This ambiguity arises from the two different concepts which the term conveys: first, the process whereby towns emerge and develop in a given society, and, second, the process whereby the urbanization of a society has developed and changed in the past.

The Latin American societies are at present undergoing a process of urban expansion and change parallel with a process of contraction and change in rural areas. In the first sense of the term, the assertion that an urbanization process is under way would be valid for a rural locality or a group of rural localities considered separately within a particular national society, and this is undoubtedly occurring. It only occurs, however, as part of the expansion and change of a process which already has a long and eventful history behind it in the national society itself.

Without denying its importance as an academic exercise, it would be unrealistic, therefore, to begin by laying down a universal definition of what is urban and what is rural. It is much more important for the purposes and real possibilities of research to indicate what the present process of urbanization actually involves, and to describe its characteristics and trends, and the factors underlying it, rather than to go into the original meaning of the term. In other words, a scientific theory regarding the present urbanization process in these countries should not be built on the formulation of a general theory of the urbanization of society, because it operates at a different level.

The specific purpose of this theory is to present a systematic picture of the elements involved in a specific process, of its changing pattern, its general trends and its implications in an actual society, not in society in the abstract sense. In this context, one of the forms taken by the process of change in the Latin American societies is the expansion and modification of the urbanization process, that is, of a form of social organization which is becoming predominant in some countries and is being consolidated in others.

What distinguishes urban from rural is that they are two different systems of ecological and socio-economic organization of human life, and besides coexisting and being juxtaposed, these systems are permanently interdependent. This means that they cannot be considered as two extremes in a *continuum*, but rather as two sectors of a single structural unit. Therefore, it is impossible to study what is happening in one of those sectors without first establishing where it coincides and where it conflicts with the other. Expansion and change in one of these systems of organization of human life involve a simultaneous contraction and change in the other. The whole question of urban expansion and change in any society is, first of all, a process of change in the society's urban-rural relationship, giving pre-eminence to the developing urban way of life. That is to say, urbanization is one of the forms taken by the general process of transformation of these societies, and it represents changes in the urban-rural relationships in every basic structural order of society, through expansion of the urban system. If an entirely rural society were being urbanized, the process would primarily involve

the emergence and development of urban patterns affecting some portion of the basic structural orders in that society (for example, the emergence of urban-type settlements, secondary and tertiary economic activities, forms of social relationships deriving from these factors, and incipient urban sources of political power). In the real case of a national society in Latin America or any other part of the present-day world, a developed and consolidated urban organization, actively interdependent with the rural, already exists for each of the basic structural orders of the national society, i.e., it is already one of the basic modes of existence and development of the over-all structure of society. Thus the process directly involves a modification of urban-rural relations in the society, as a consequence of the trends of change and expansion in the urban system of the correlative changes in the rural.

Accordingly, from the standpoint of the dimension of the general process of change in these countries, the present "urbanization process" may be considered as a process of expansion and transformation of the urban systems existing in each of the basic structural orders of the whole society, with, as a part and a result of this process, an alteration of the interdependent rural systems and, consequently, of the entire structure of urban-rural relationships in the society as a whole, all this being largely conditioned by the changes that are taking place in the dependency relationships of the national society as a whole. On this basis, the methodological problem is to differentiate between the dimensions of the processes of change which each basic structural order of society is undergoing, to study the mechanisms of interdependence in each of those dimensions, and to reconstruct the general process in terms of its general trends and its implications for society as a whole.

One of the risks involved in considering the urbanization process as a dimension of the over-all process of change in the Latin American societies seems to be that urbanization might tend to be regarded as synonymous with over-all change. This risk cannot be avoided without first establishing and then working on the basis of the fact that this dimension covers everything in the over-all change which is directly or immediately linked to the alteration of the relations and limits between urban and rural in each major institutional order of society. If this approach is taken as the point of departure, the above-mentioned risks can be reduced or eliminated. To that end, it is necessary to establish

what is the nature of this changing trend in urban-rural relations in each basic structural order and what are the factors determining it. The kind of interdependence between the various sub-dimensions of the process depend on the kind of interdependence that exists between the actual orders of each society in each specific historical context, which only specific research can reveal and determine.

1. URBANIZATION OF THE ECONOMIC STRUCTURE

Broadly speaking, this process can be described as the tendency for economic activities in urban centres to predominate in the over-all structure of economic activity in society, and the tendency for urbanized forms to become widespread in the whole structure of economic activity, particularly the structure of production. In this process, there is a change in the structure of the previously existing urban economic activity and, as a result of the impact of this change on the national economy, a change also takes place in the rural economic structure itself, all of which gradually alters the urban-rural economic relationships.

Inasmuch as, in the structure of over-all economic activity in a society, primary activities are mainly a feature of the rural area, in the present situation urbanization of the economy means that secondary and tertiary activities are expanding, becoming more diversified and assuming a key role in the national economy as a whole. Assuming, further, that the basic secondary and tertiary activities are located in urban centres, not only those activities but the urban centres as well will tend to hold economic sway over the rural localities. For this to come about, it is not necessary that all the secondary and tertiary activities of the economy should shift to an urban ecological setting, since artisan-type activities, for example, and commerce may be found also in rural areas. It is obvious, however, that as the urban centres gain and consolidate their economic predominance, the artisan-type activities in those branches of production which are dominated by the urban centres will gradually lose their importance and their ecological and demographic scope, although other rural artisan-type activities may subsist and even develop for a time.

If all this is to become possible, the urban economy, besides expanding, must be technologically diversified and developed, so that the relations between the actual branches and levels of urban economic activity will gradually alter in favour of predominance by the technologically more developed branches and levels. This is

perhaps what is happening between manufacturing and artisan-type activity in urban centres, or between industries manufacturing consumer products and those producing intermediate or capital goods. Moreover, as the urban economy's growth is consolidated during this process, its characteristics will be gradually incorporated even in primary activities, whose functions, technological processes and entrepreneurial organization must be adapted progressively to the requirements and conditions of the urban economy. Thus agriculture becomes more and more mechanized and industrialized to serve the needs of the industrialized urban areas. At a very advanced stage in the urbanization of the economy, primary activities can be considered as rural only in so far as they remain ecologically rural, but in nature they are "urbanized" as a productive process.

While the urbanization of the economy is only just beginning, urban centres at different levels may not be very closely linked and they may enjoy comparative independence, particularly in countries where the population centres are very far apart and the communications and transport systems are little-developed. With the intensification of the process and the definitive predominance of the urban economy, however, an economic system emerges and is consolidated, and the rural area is gradually absorbed into this system as economic urbanization spreads to it. This is normally an uneven and sometimes a discontinuous process in the various countries, and in the various regions of a country.

Similarly, in the initial stages of the urbanization of the economy, the direct day-to-day economic relations between the countryside and the city may be relatively unstable and tangential, although in the over-all historical context the relations between the two must be all-encompassing and continuing, since they both form part of the same structural unit, within which they act upon and are dependent on each other. With the expansion of the urban economy—which also implies urbanization of the economy of rural areas as a result of urban products entering the rural markets and of the technological and functional urbanization of primary activities—the isolation of the city and the countryside from each other in their day-to-day economic relations diminishes and eventually disappears. Thenceforward, the economic relations between town and country, urban and rural, become closer and more direct. The rural economy comes to depend on the urban economy, and urban centres hold economic sway over country towns and villages,

just as the urban areas do over the rural areas.

From this standpoint, the urbanization of the economy of a society may also be regarded as a process of homogenization of the whole economic structure and of direct and complete integration of the population in the context of the economy, production and the urban market. In the long run, this presupposes the disappearance of urban-rural differentiations in the economy, a stage which some modern societies may be about to attain.

In most of the Latin American countries, the process of expansion and change of urban economic activities within the national economy is in full swing, and in some countries urban economic activities are already predominant. Nevertheless urban-type economic activity does not yet seem to have imposed itself on the whole national economy even of those Latin American countries where the process has gone furthest. The trend is probably in this direction, however.

2. URBANIZATION OF THE ECOLOGICO-DEMOGRAPHIC STRUCTURE

This is essentially a process of expansion and modification of the urban ecologico-demographic characteristics of society, with the corresponding modification of urban-rural relations in this structural order, including the changes that take place in each of the terms of this relationship. Since the most visible sign of this process is the growth of the urban section of the society's total population, especially as a result of the growth of the population living in the cities, it is often confused with the process itself, and for many it is still "the process of urbanization of society."

Although this is the most striking feature of the ecologico-demographic urbanization process, it is not the only important one, nor does it occur independently of what is happening in the rest of the ecologico-demographic structure of the society. Urban population growth does not take place in the cities alone, although it is mainly concentrated there in Latin America and the rest of the developing world; to a lesser degree it is also observable in smaller towns and villages. Moreover, the number of cities and smaller towns and villages tends to increase in the course of urban population growth, which implies an expansion of the urban ecological forms of settlement and a relative reduction of the rural, although the latter may increase in absolute terms. The two interconnected

processes reveal a change in the balance of the urban-rural relationship in the ecological and demographic structure of society in favour of the urban areas.

In the same process, the urban ecological characteristics gradually change. First, because the cities and minor towns and villages increase in size, in terms not only of the number of inhabitants but also of the ecological space inhabited. Secondly, because a change takes place in the internal ecological structure of the cities and in the smaller towns and villages, which attain the status of cities. Thirdly, because with the increase in the number, size and importance of urban population nuclei, which are relatively scattered throughout the territory of the society concerned, the tendency is for an urban ecological system to become established, together with a network of communications and real and direct interdependent relationships.

The rural ecological and demographic sector cannot remain unaffected in this complex of changes, because it and the urban sector are interdependent within the over-all structure of the society. The migration of the rural population to the urban sector is already a tangible sign of change in the rural sector. Furthermore, with the progressive establishment of an urban system, the rural towns and villages are incorporated in the network of communications and interdependent relationships which that implies; consequently, the isolation of the town from the country and of one rural area from another becomes less or disappears.

From a strictly demographic standpoint, the growing urban predominance in the urban-rural demographic relationship is not the only significant change that takes place, although it may be the most obvious and perhaps the most important. Neither can the rural population drain resulting from migration to the cities fail to introduce substantive changes in the rural demographic structure, particularly since most of the migrants are those of the younger sections of the population who are best fitted for urban life, most susceptible to urban influence, best educated, etc. Correlatively, the demographic structure of cities, and to a lesser degree of the smaller urban centres, feels the full impact of the overwhelming influx of a population with very different cultural values and traditions. One of the most obvious results is that the sharp increase in the younger strata in the urban population is accompanied by a parallel reduction in the same strata in the rural population.

To sum up, the trend towards urban ecological and demographic predominance in the society of any of the Latin American countries, but particularly those in which this process is comparatively recent, means not only urban population growth but a whole set of broader and more complex phenomena involving the transformation of all the basic elements of the urban-rural relationship in this structural order. Clearly, rural-urban migration may be a process of urbanization of the population, but not of society. Even so, until such time as other structural orders are incorporated in the process, this is an urbanization of the population only in its ecological sense.

3. URBANIZATION OF THE SOCIAL STRUCTURE

The term social structure is used here in the sense of the structure of social power relationships, i.e., the stratification of basic social groups that constitute the matrix within which exist the many interrelated groups and types of groups that may go to make up a society. From this point of view, the process of urbanization of the social structure consists in the expansion and alteration of the urban patterns of organization of social power existing in the society concerned, and, consequently, in the modification of urban-rural relationships within this basic structural order and of the actual rural patterns of social power structuration which form part of the national society as a whole. The expansion of urban patterns of organization of social power implies an increase in the population incorporated into the society's total system of urban stratification, together with an increase in the population incorporated into each of the classes and strata making up the urban system of social power within the national society.

Since ecologico-demographic urbanization involves the demographic expansion of the urban population, the population drawn into the urban ecological framework likewise joins the whole social order existing within it. Hence, an increase takes place both in the population included in the entire urban system of social power and in the population forming each of its social sectors.

The changes in the patterns governing the urban system of social power in the national society in question—deriving partly from the population increases in the system as a whole and in each of its sectors, and primarily from the alterations brought about in the structure of the urban economy—consist chiefly in modifi-

cations of the specific relationships between the various classes and strata forming the urban sub-society and changes in the internal composition of each of those groups. The structural diversification and metamorphosis of urban economic activity gives rise to new occupational and vocational groups and to new sources of status-roles within the economy and correlatively within the social structure. These changes affect the existing sources of power and, to some extent, the specific population groups which control them.

Thus, the urban social power structure changes, gains in flexibility or becomes diversified, when new strata and classes are generated, the internal composition of each of these is altered, and the volume of population comprised in them increases.

The expansion of the demographic framework of the urban system of social power structuration—not so much as a result of the internal increase in the urban population itself, as in consequence of migratory shifts of the society's total population towards the urban ecological framework or of the urbanization of rural localities and areas themselves in the same respect—implies the development of a trend towards the transfer of increasing numbers of the national population to the urban sub-society, with all its inherent consequences. The one of interest here is the progressive incorporation of the country's population into the urban social power system.

This latter process constitutes a mechanism whereby urban-rural relationships are altered within this basic structural order, not only because changes occur in the proportional distribution of the population between the two sub-systems, but also because the dependency relationships between the two forms of organization of social power tend to undergo modification. One of the reasons for this is that the predominance of the urban social power system makes itself felt not only in demographic but also in social terms. If the alteration referred to is really to take place, the rural sub-system of organization of social power must also change. In this case the changes are brought about because forms of economic activity which, historically speaking, are of urban origin infiltrate into the countryside, and because the function and specific nature of rural economic activity in relation to urban activities undergoes modification.

Thus, at the present time, while the urban economy and population are expanding and the urban economy is "in process of change and

diversification, under the impact of the widespread introduction of new technologies", the compositions and function of each of the classes and strata in which social power is organized in the urban centres are changing at a pace whose speed varies from one country to another and from one area to another within each country.

In the first place, the traditional ruling classes—mainly landowning bourgeoisies in most of the countries—are gradually altering in content and function with the changes in the economic sources of their social power. Alongside this development, the middle-level groups are expanding, not only demographically but also from the standpoint of their specific functions in society, the scope and range of their influence, and their access to the market and to concrete forms of political power, etc. The working-class population, both industrial and non-industrial, is increasing in number, and while in the urban economy industrial development is taking place and the relative importance of tertiary activities is growing, under each country's specific dependency conditions, a whole stratum of population is emerging which is marginal to the new socio-economic structure associated with industrial expansion.

In the rural sub-society, the composition and specific nature of the ruling social groups is undergoing decisive modification as more and more products of urban origin trickle into the market, changes occur in the function of the crop and livestock farming economy in relation to the needs of industrial development and of the urban market, and the former bases of the rural economy gradually disintegrate. A case in point is the decline of the land owning stratum linked to the "traditional hacienda" system, and the conversion of part of it into an entrepreneurial sector. At the same time, the sectors formed by the rural petty bourgeoisie—which in most of these countries used to constitute a set of relatively scattered and isolated groups—are expanding, and so is the rural proletariat.

In other words, the structure of social power is changing not only in the urban sub-society, but also in the rural areas. In so far as all these internal changes in each of the sub-societies cannot but affect their interrelationships within the over-all structure of power, dominance and conflict in the national society as a whole, the implication is that the specific patterns and content of the over-all power structure are tending to change, although not the basic nature of this structure as a whole.

Thus the urbanization of the social or social power structure stems from the urbanization of the economic and ecologico-demographic structures of society, and in its turn influences each of these processes.

4. URBANIZATION OF THE CULTURAL STRUCTURE

In the abstract, the concept of culture adopted here covers the whole of the ideological super-structure of a society, together with the symbols, institutions and objects by which it is served and in which it finds expression. The term therefore relates both to the images of itself and of others which the population of a given society entertains or develops, and to the images of the ruling, subordinate and alternative nuclei of formal and real axiological orientation. It includes the over-all objectives pursued by the society or imposed by its ruling groups upon its other members; its systems and levels of aspiration; the formal and informal institutions which symbolize and put into effect its axiological-normative models, etc. What is more, this interpretation of culture also embraces the perceptive structures and the content of perception of society and nature which exist in a given society at a given time.

Both by its very nature and by virtue of the quality of the scientific instruments at its disposal, culture is one of the most elusive aspects of the historico-social situation. Accordingly, the problem of the urbanization of culture in Latin American societies is considered here mainly with reference to some of its more perceptible dimensions.

Broadly speaking, like all other specific processes or sub-dimensions, the urbanization of culture in existing Latin American societies consists first and foremost in the expansion of the demographic radius of influence of the culture characterizing the urban sub-society of a given national society at a given time, and in the changes brought about in it during the process. This involves both the alteration of urban-rural relationships within the cultural structure of the society, and internal changes in the rural culture predominant in the national society.

In all the countries under discussion, the contents and symbols of urban culture are clearly acquiring or beginning to acquire an increasing radius of influence, not only from the territorial or ecological standpoint, but, to much greater effect, from the demographic angle. Thus, the process under discussion consists in the expansion of the influence of urban culture within a

society. Clearly, too, urban culture itself is undergoing constant and increasingly rapid modification. Urban culture nuclei of the past are dwindling and disappearing or gradually changing and adopting different patterns; others that are completely new are being introduced or developing from within, with the ensuing quantitative enrichment of the culture in question. The relations between the axiological-normative circles co-existing in the society concerned—whether they consist in subordination and conflict or in competition between alternatives—alter likewise as the social groups forming each of these circles change their position and their specific relationships with one another and with the society as a whole.

As the urban ecological and demographic framework broadens, as the urban economy becomes predominant and infiltrates into the countryside itself, and as the structure of social power is urbanized, urban culture too expands, not only inasmuch as its predominance makes it of greater importance within the whole, but also because even the co-existing rural culture is permeated and modified by it in many respects. This spread of urban culture beyond the limits of the town, this tendency for many of its components to spill over into population sectors which are not incorporated in the specifically urban framework, is a phenomenon noted by all students of current change in Latin America, although not much has been written on the subject. Observers are unanimous in pointing out that in each individual country the rural population is subjected to the sectoral influence of contemporary urban culture through many channels and in a variety of ways. This is tantamount to saying that urban-rural relationships within the society's over-all culture are undergoing a vigorous process of change, although it differs in level and intensity among the various regions and localities within a given country, or from one Latin American country to another.

As urbanization of the economy and of the ecologico-demographic structure proceeds, the changes occurring in the actual composition of the rural sub-society show that situations, activities, institutions and symbols of urban origin in that particular national society are making their way into rural areas. With the ground thus prepared, not only the value-normative nuclei, the specific motivations and the content and direction of aspirations, but also the images of society and of nature that stem from the urban world may find fertile soil in which to take root and grow.

Comments on the spread of urban culture in the countryside often give the impression that the process is simply an overflow, as if the contents of one vessel were to be poured into another, without modification of the latter in order to receive it rather than merely on receiving it. Basically, however, the current process of diffusion of elements of urban culture among the rural sectors would not have been possible unless the rural society itself had previously undergone radical modification, or had been passing through a phase of more or less intensive change.

Only in so far as urban society changes does its real culture also change. Similarly, only inasmuch as rural society changes in itself and in respect of its relationships with urban society can its culture veer in the direction of urbanization. As the urban and rural sub-societies are not a continuum, but two interdependent sectors within a single structural unit, it is not only the diffusion of urban culture throughout the countryside that is implied by the modification of urban-rural relationships within the culture of the society as a whole. In addition, in the national society, elements of rural culture are disseminated in the urban culture that has been established and developed as an outcome of the whole urbanization process. This rural-urban diffusion which is effected through the migration of cultural elements from the countryside to the town—a form of migration not necessarily identical with population shifts, although superimposed upon them—is one of the most active processes. The scale on which it takes place depends upon the urban-rural relationships previously existing, upon the degree to which the migrant population was previously influenced or bedazzled by urban culture, upon the cultural disparities existing between the two sectors and upon the types of cultural conflicts by which the total population of a national society is affected.

It is therefore possible that what is called rural culture in a given country at a given time is the backwash of the urban culture of the past and of its influence on the rural population. By the time migration to the towns takes place, a different urban culture has grown up, and the culture brought in by the migrants is rural only by comparison with the urban culture of the day. This does not apply, however, to countries whose rural sub-cultures are basically different from the prevailing national culture and undergo constant change in the course of history. Argentina and Peru may perhaps serve to exemplify each of the two possibilities.

5. URBANIZATION OF THE POLITICAL STRUCTURE

When urban-rural relationships are examined from the point of view of political structure, it will be noted that in every Latin American country the town has always been the ecological matrix of the principal institutions of political power, despite the fact that town and countryside are relatively cut off from each other as far as direct day-to-day relationships are concerned. Suffice it to recall the real and ideological significance of politico-administrative centralism in the history of Latin America.

This image, however, must be accepted with many reservations if the problem is to be analysed on a somewhat more concrete basis. From the standpoint of abstract historical relationships, the town has been the dominant sector of society since the very earliest days of colonial capitalism in the Latin American countries. This is true in practice of those societies which were dependent from the outset, where the town was and still is the keystone of dependency relationships. Nevertheless, the political dependency of the rural sector has not unvaryingly existed at the same level or with the same characteristics during each significant historical stage in the development of the Latin American countries.

As long as the structure of production, and the structure of economic activity in general, were based essentially on primary activities, the rural sector had the upper hand in urban-rural relationships of this kind, notwithstanding the fact that the institutions controlling the society's over-all economy were established in the town, and the latter constituted the mechanism whereby the national economy was linked to the most important international market. As long as the majority of the population was concentrated in the countryside, and the town constituted a relatively isolated entity within the ecologico-demographic structure of the society, there too the rural sector was predominant. As long as the social power structure was based mainly on sources deriving from the primary economy, here again the rural sub-society was preponderant, although the agents of the power institutions lived in the town. Today, in contrast, whatever the specific levels of change reached in the individual Latin American countries, the trends observable are largely favourable to the urban sector in all these spheres.

Against the background of a matrix of rural predominance in the over-all power structure of a society, the political predominance of town over country was more formal and apparent

than real in the earlier stages of Latin America's history. While it is true that the most important institutions of the political structure, and often their agents as well, were established in the town, it is equally undeniable that the sources of the power of those institutions and of their agents were to be found not so much in the urban as in the rural areas. Thus, the oligarchical hegemony which was so familiar a feature of the over-all political power structure of the society, and which in recent times is being laboriously reduced and broken down, made use of formal power institutions and mechanisms set up in the town and belonging to a structure whose historical origin was urban—political liberalism, for example; but the access obtained by agents (groups and individuals) to the control of those formal institutions, with the ensuing all-too-well-known distortions, was primarily based on their control of sources of economic and social power which were rural in location and content.

It was by virtue of their ownership of land or their association with the landowning class that the ruling groups in the political structure controlled the political institutions ecologically located in the town. The same thing happened later, in so far as—despite the fact that their power was directly based on secondary or tertiary economic sources—they maintained their social and political ties with the traditional landowning classes. Herein has always lain the reason for the relative autonomy of the rural sector as regards the real effects of the integrating mechanisms of the town-based central political powers, the endemic *caciquismo* (bossism), and the inconsistencies of the process of incorporating the rural population into the political institutions of the Nation-State which are all still to be found in many of the Latin American countries.

Nevertheless, in so far as urban-rural relationships are undergoing intensive change in each of the various structural spheres, the process of political integration of the society as a whole—i.e., the process of incorporating the population

into the national political institutions—is gaining strength at all levels and in all parts of the national territory, and in the course of it urban-rural relationships are being modified in the political order of the society. During the process in question, the political hegemony of the town is gradually becoming real instead of merely formal, since the whole of the State machinery pivots upon the political institutions and power mechanisms. Access to the control of these real institutions and mechanisms of political power is becoming mainly the prerogative of agents who are urban by virtue not only of their ecological background but also of their socio-economic sources of power. Even in the countryside itself, it is precisely the groups that are growing up as a result of the urbanization of the rural sector which are becoming the real leading agents of these political institutions.

Thus, as far as the political structure of the society as a whole is concerned, urban-rural relationships have been or are undergoing radical and intensive change, and there is a trend towards the total hegemony of the urban sector in the politico-administrative system nowadays characteristic of these societies. Urban political power is predominant not only in the pattern and location of political institutions, but in the sources from which access can be obtained to control of these, and in the origin and sources of power of their agents as such.

Thus, the urbanization process under way implies the emergence of a new ecological matrix of the structure of political power, rural dependence, and the expansion and alteration of the content and urban patterns of the structural institutions and mechanisms of the Nation-State. The "populistic" phenomenon in Latin America, for example, corresponds to the transitional character of the society, and of its political machinery in particular, as it moves from one period of its history to another. Similarly, the urbanization of the society also finds its own expression in political terms.

RECENT ACTIVITIES OF ECLA

I

The twelfth session of the Committee of the Whole

(Santiago, Chile, 23-25 April 1968)

The twelfth session of the Committee of the Whole was attended by delegations from Argentina, Barbados, Bolivia, Brazil, Canada, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, El Salvador, France, Guatemala, Haiti, Honduras, Jamaica, Mexico, the Netherlands, Panama, Paraguay, Peru, Trinidad and Tobago, the United Kingdom of Great Britain and Northern Ireland, the United States of America, Uruguay and Venezuela. Representatives of Belgium, Bulgaria, Czechoslovakia, Hungary, Japan, Poland and the Union of Soviet Socialist Republics were also present, and the Federal Republic of Germany sent an observer.

The Committee of the Whole began its work with a special meeting to commemorate the twentieth anniversary of the Commission. On the occasion of the anniversary, the representative of Brazil made a gift of a mural for the United Nations building on behalf of his Government. The representatives of the States members of the Commission adopted a declaration in which they recognized the valuable work done by ECLA and declared the intention of their Governments to continue, through the Economic Commission for Latin America, their efforts to speed up the economic and social development of the region, with a view to increasing the material and spiritual well-being of the Latin American peoples, forging closer economic links between the Latin American countries and between them and the other nations of the world, and thus helping to strengthen the regional economic integration process and to buttress international co-operation; and expressed their appreciation of the valuable technical contribution made by the secretariat of the Economic Commission for Latin America to the development of the Latin American countries.

The Committee of the Whole adopted only one resolution, on the admission of the West

Indies Associated States as an associate member of the Commission.

The following were the main topics of discussion: the economic and social situation in Latin America; the Commission's activities in relation to the second session of the United Nations Conference on Trade and Development (UNCTAD); Latin American regional integration; the report of the secretariat on the activities of the Commission; the Latin American Institute for Economic and Social Planning; and technical assistance activities in Latin America.

The review of the economic and social situation in Latin America was based on the excerpt from the *Economic Survey* for 1967 and the Executive Secretary's statement at the opening meeting.

In 1967 the per capita product for the region as a whole grew by only 1.5 per cent, which reflects the unsatisfactory results achieved by the Latin American economy. This general appraisal allows for appreciable differences from one country to another. With regard to the external sector, in 1967 the upward trend of exports came to a stop, their value remaining at practically the same level as in 1966, while imports of goods increased by 4 per cent. All this meant a reduction in the trade surplus and a greater disequilibrium in the balance of payments, with the deficit rising from 1,080 million dollars in 1966 to 1,600 million in 1967. The unfavourable evolution of exports was largely determined by the decline in world prices of most primary commodities, which cancelled out the increase in volume, and by the loss of dynamism in the world economy and a further reduction in Latin America's share of world trade. In addition, intraregional trade was relatively stagnant in 1967 for the first time in the present decade. In turn, the maintenance

of a higher level of imports without a corresponding rise in exports involved a sizable increment in net external financing in 1967, including direct foreign investment.

With regard to regional integration, despite the loss of impetus in intraregional trade there were a number of important developments on the institutional plane, in particular, the proposals put forward at the Meeting of American Chiefs of State in April 1967 and the considerable progress achieved in sub-regional integration schemes.

In addition to their concern to speed up domestic growth and improve international trade, the countries were preoccupied with controlling inflationary pressures and with combating the depressive effects of certain types of anti-inflationary policy.

It was pointed out that a number of highly important international events would affect the Latin American economy both directly and indirectly. They include the Kennedy Round and the second session of UNCTAD. Attention was drawn, moreover, to the difficulties encountered by the international monetary system, and the programmes introduced in some of the major countries to overcome them.

When ECLA's activities in relation to the second UNCTAD session were discussed, the secretariat summarized the main results achieved. They related, *inter alia*, to commodity trade, exports of manufactures, financing, shipping, the expansion of trade, economic co-operation and integration among developing countries, the World Food Programme, special measures in favour of the relatively less developed countries, the position of land-locked countries, trade relations between countries with different economic and social systems, and measures to facilitate fuller agreement on the principles which should govern international economic relations and trade policies aimed at development. It was deemed useful that the secretariat should further analyse the results obtained, for consideration at the next session of the ECLA Trade Committee.

The Committee of the Whole also considered the progress of the Latin American integration movement, mainly in the context of the problems of the economically relatively less developed countries and the Central American Economic Integration Programme.

In connexion with the first of these questions, the secretariat presented the report of the

Meeting on the Problems of Regional Integration of the Economically Relatively Less Developed Countries (E/CN.12/AC.61/3) which had been held at Guatemala City from 23 to 28 October 1967. The recommendations adopted on that occasion were briefly reviewed.

As regards the Central American Economic Integration Programme, it was stated that a significant proportion of the resources of the ECLA Mexico Office was being devoted to the preparation of background documents for the meetings of the Central American Trade Subcommittee and of the working groups on ports, electric energy, and transport statistics. The integration movement of the Central American countries had given rise to significant regional development and an expansion of trade within the area and with third countries.

The measures which the English-speaking countries of the Caribbean were adopting to promote closer economic and social co-operation with one another and with the rest of the Latin American region were also reviewed. On 1 May 1968 the Caribbean free trade area entered into operation. The Caribbean Free Trade Association (CARIFTA) had been established to that end. It would urgently need technical assistance from ECLA and other United Nations agencies in solving problems relating to the equitable distribution of the benefits deriving from the free trade area and to preferential treatment for the economically relatively less developed countries.

The Committee of the Whole reviewed the activities of the Latin American Institute for Economic and Social Planning in the fields of training, advisory services and research, and suggested that, without neglecting the research work it had been asked to undertake, it should place greater emphasis on the practical aspects of development policy and planning, in close contact with the competent authorities of the countries concerned.

An account was given of the main technical assistance activities undertaken by ECLA throughout its existence. For 1968 and subsequent years, the plan was to provide advisory services in various development programmes, and to set up a group of experts in regional planning, industrial development, natural resources, agricultural development, market studies and transport, and of other experts who would be attached to ECLA and would be mainly at the service of the economically relatively less developed countries.

II

Seminar on the Organization and Conduct of Population and Housing Censuses for Latin America

(Santiago, Chile, 20 to 31 May 1968)

The Seminar was organized by the United Nations Economic Commission for Latin America, Statistical Office and Office of Technical Co-operation, in co-operation with the Inter-American Statistical Institute, the Latin American Demographic Centre (CELADE) and the United States Bureau of the Census.

It was attended by participants and observers from Argentina, Barbados, Brazil, British Honduras (Belize), Chile, Colombia, Costa Rica, Cuba, the Dominican Republic, Ecuador, El Salvador, Guatemala, Guayana, Haiti, Honduras, Jamaica, Mexico, the Netherlands, Panama, Peru, Trinidad and Tobago, the United States of America, Uruguay and Venezuela, and by representatives of the Latin American Institute for Economic and Social Planning, the International Labour Organisation, the World Health Organization/Pan American Sanitary Bureau, the Food and Agriculture Organization of the United Nations and the Inter-American Statistical Training Centre (CIENES).

The idea of co-ordinating population and housing censuses on an international basis, which dates from the nineteenth century, finally took concrete form with the first World Population Census Programme, which was prepared for execution around 1950. Subsequently the 1960 Population Census Programme was carried out. The Economic and Social Council of the United Nations has approved a more detailed programme for the censuses to be conducted around the year 1970.

In the Americas, the Inter-American Statistical Institute has actively participated in the promotion of the Programme for the Census of America (COTA) and population and housing censuses were conducted throughout almost the entire region of the Americas in 1950 and 1960. The Programme for the 1970 Census of America is now being carried out. Handbooks containing methodological principles and international recommendations have been updated on the basis of fresh experience and the views expressed by international bodies and national authorities.

The Seminar provided an opportunity for a discussion of problems relating to the organization and conduct of population and housing censuses, and enabled the officials responsible

for those tasks in the various countries to exchange ideas and information on the subject.

The discussions covered the following main items: planning of population and housing censuses; co-ordination between housing censuses and population censuses and of those censuses with other statistical inquiries and compilations; geographic work for census purposes and preparation and use of census control lists; selection of census topics and preparation of a census tabulation programme; preparation of the census questionnaire and of instructions for enumerations; the enumeration; checking, coding and editing of census questionnaires; electronic processing of census data; design and execution of a census publication programme; methods of evaluating the reliability of population and housing census data; use of sampling in population and housing censuses; and census tests and the experience of American countries in carrying out pilot censuses and surveys in connexion with the 1970 censuses.

The first item covered the main points of census planning, and the problems and principles of census organization and administration. The participants reported on the census plans of their countries. Of the countries represented, fifteen have fixed provisional or final dates for their censuses, three have not yet fixed a date for financial reasons, although they will probably conduct a population census only in 1970, and one country is quite unable to conduct a census during 1970.

The Seminar's attention was drawn to the fact that the decision on census taking is not the responsibility of the statistical authorities, and that therefore Governments have to be convinced of the necessity of census taking since the census is the basis for economic and social development planning and provides the analytical basis for many kinds of research.

The Seminar recognized the importance of assistance from international organizations in census taking; it was felt that such assistance might take the form of specialized technical assistance, especially the provision of experts in sampling and electronic data processing, and the organization of training courses for national experts.

The Seminar agreed that, since the careful planning of censuses is of crucial importance for their success, it must be a continuing activity of the national statistical agency. The preparation of a census normally takes two or three years; however, if modern census techniques, especially electronic data processing, are used, it takes much longer.

The Seminar found the draft census calendar submitted to it acceptable. The calendar divides census work into four main phases: preparatory work, pre-enumeration work, enumeration work and post-enumeration work. A new method used for census planning, known as the critical path method, was examined.

The critical path method breaks down each census operation into its smallest components and shows, for each component, the next step into which it feeds, the minimum amount of time needed to finish each step and the latest date by which it must be completed in order not to interfere with any part of the operation. The method may be used to test the proposed timing of each of the operations included in the census plan. Before a critical path analysis can be carried out, each task must be linked both to the tasks which must be completed before it can begin and to those which cannot begin until it is completed. The relationships between the various operations are not always clear and it is essential to determine them if the analysis is to yield valid results.

Regarding the legal basis of the census, the Seminar agreed on the need for general census (or statistical) legislation which should at least cover the obligation to take periodic censuses, determine the authority responsible for census taking, and establish the obligations of the individual and the confidential nature of the personal information obtained through the census. It was also agreed that special legislation should be enacted for each census, specifying the date of the census and authorizing its organization and administration.

The administrative organization of the census was also considered and the problems at different levels were discussed in detail. It was agreed that a permanent organization should be responsible for the preparation and execution of national censuses for the following reasons: trained and experienced staff would be available, records could be maintained, there would be continuity of census work between censuses, the censuses could be better prepared, and a nucleus of processing equipment and office space would be available. In most countries this organization is usually a central census

office forming part of the national statistical office. Experience shows that the territorial census organization should come directly under the central office, although local administrative authorities should also participate in the census work.

The difficulties of staff recruitment for census work were discussed since it is not always easy to find the trained and experienced staff the census offices need in the countries of the region. In addition, it is very difficult for the offices to retain staff. In this connexion, the need to organize training courses at different levels and in different subjects, and to have international assistance for the training of technical personnel, especially in the sampling and data processing fields, was stressed.

When considering the question of co-ordination between housing censuses and population censuses and of those censuses with other statistical inquiries and compilations, the Seminar first took up the relationships between housing censuses and population censuses. An especially close association exists between the two censuses, which should not be considered independently of each other because essential elements of each census are common to both. If the two are carried out as a combined operation, close co-ordination is essential at all stages, especially during cartographic work, the preparation of census control lists, enumeration and data processing.

Population and housing censuses and agricultural censuses, on the other hand, are not so closely linked. Moreover, the information obtained from agricultural censuses is often not comparable, since different definitions are used and the units of enumeration are not the same.

While it is sometimes considered that simultaneous enumeration of the two censuses is advantageous because it may help to relate some characteristics of the agricultural holdings to characteristics of the population and of households associated with such holdings, this procedure is not recommended, because of the amount of time and resources required, and the risk of impairing the quality of the data.

Nevertheless, it was suggested that the final decision in each country would depend on the capacity of the census organization to plan and successfully carry through all three censuses at the same time.

With respect to geographic work for census purposes, the points brought up in the discussion were the need of maps for census opera-

tions, the functions of a geography office, census map requirements, map acquisition, operational steps in a mapping programme, and map and graphics publication.

Attention was drawn to the most common mistakes in the construction of enumeration maps, which are generally related to the way in which the maps are made since those that are available are not prepared specially for census purposes. A three-year period would seem to be required for mapping work; however, maps should in any event be available at least three months before the census is to be taken.

It was observed that aerial photographs could be of great assistance in the preparation of maps since they show physical and cultural features in their correct perspective; it was pointed out, however, that their use was limited because of the constraints imposed by time and cost.

Mention was made of the map requirements of census offices at the central, regional and local levels; for local offices, the maps needed by supervisors, crew leaders and enumerators were indicated.

Interest was expressed in the delineation of statistical areas in accordance with criteria established by the national statistical office. The criteria are usually based on some sort of cultural or economic homogeneity. Several different types of statistical areas were distinguished, including areas with similar social characteristics and market functions, economic areas and sub-regions having similar socio-economic conditions, large urban areas whose boundaries are determined on the basis of urban land use, and small homogeneous portions of cities which are also defined for data-gathering purposes.

The manifold advantages of having statistical areas were emphasized. For example, since the areas are homogeneous, it is possible to obtain a more meaningful series of data. This is important mainly in those countries in which boundary changes of administrative areas are common.

With respect to map acquisition, mention was made of the various national agencies and their departments at different levels and of the regional and international development agencies and private companies from which maps could be obtained.

It was found that the most appropriate way to improve this aspect of census work would be, first, to take an inventory of the existing map collection; subsequently, all available

sources would have to be used to complete the collection.

Census control lists serve to ensure that all the living quarters in the territory concerned and/or their occupants are included in the censuses. They have many uses. For example, they can assist in achieving complete coverage in carrying out censuses of population and housing, as a control or frame for other statistical inquiries, for certain aspects of census planning, for the collection of statistical data, and as a means of providing advance census results. The lists can also serve as a means of supervising and controlling the work of enumerators and of furnishing advance information on population and housing, and as a frame for subsequent sample inquiries. Attention was also drawn to their usefulness for the collection of information to serve as a basis for a subsequent census of agriculture. Another function is to provide a list of names of household heads from which a preliminary selection of candidates who might serve as enumerators could be made.

During discussions on the selection of census topics and the preparation of a census tabulation programme, it was pointed out that, in order to define the topics to be investigated, consideration should be given, *inter alia*, to the following points: requirements for national and international data; level of the country's statistical development, organization of the services that would be responsible for planning and taking the censuses, census experience, availability of trained personnel and suitable teams for processing the data gathered; financial resources available to cover the expenditures of all phases of the censuses; cultural level of the respondent and his ability to provide required data; and procedure for the selection of topics. An important aspect in determining the topics is the availability of both material and financial resources. The former include electronic data-processing equipment which is essential for obtaining data which are difficult to obtain by other methods and for making the data available to the user as soon as possible.

In discussing the tabulation programme, the following points were considered: the statistical tables that should be obtained as the final product of the investigation; priority for the tabulations themselves; time periods for the completion of the tabulated material; and data-processing methods.

In the course of the discussion on the preparation of the census questionnaire and the instructions for enumeration, it was agreed, in the

first place, that the best type of questionnaire for population and housing censuses is that which simultaneously assembles data on all the members of a single household or all the occupants of a single set of living quarters, since it presents the following advantages: it is quicker to enumerate, edit and codify; it gives clearer information on household and family composition; and it facilitates the collection of geographical data. It was recognized, however, that the individual questionnaire has its advantages too. It is small and therefore easier for the enumerator to handle; more information can be included; and it is readily adaptable to more advanced processing techniques, such as optical reading devices. A list of the members of the household or the occupants of the set of living quarters, or a subsidiary questionnaire, can be appended to it to provide a check on the reliability of the individual schedule and to facilitate the coding of household and housing characteristics. The latter task can also be made easier if the questions on living quarters and households are set out on the opposite page of the head of the household's individual questionnaire and a common code number is used to identify the members of the household or the occupants of the living quarters and to define their interrelationships.

The view was expressed that it would be desirable for all countries to use roughly similar questionnaires, in which the questions and the pre-coded answers would be in the same logical order.

It was thought that different types of census instructions should be given to census personnel at different levels. Besides the instructions for respondents, enumerators and supervisors, separate instructions should be prepared for the census office's field staff at the various levels.

Stress was laid on the desirability of preparing a training manual for enumerators as a basis for the verbal pre-census instruction.

The discussion of enumeration covered the immediate pre-enumeration operations, such as the recruitment and training of field staff and census publicity. It revealed that in most countries field staff (enumerators and supervisors) are recruited primarily from the ranks of teachers, civil servants, university students and pupils in the higher secondary school grades. In most cases such personnel receive no direct payment for their services.

The major problem is the difficulty of training properly, in a short time, the large number of persons required for an enumeration which takes no more than a few days, and only one

day in certain instances. When a comparison was drawn between the advantages of centralized and decentralized training, it was recognized that although it would be desirable to provide centralized training for a special group of trainees who would then go into the field to train all enumerators, supervisors and other field personnel, this system is difficult to apply in the larger countries, where the census staff, in particular enumerators, have to be trained in small local areas.

The discussion of enumeration procedures was focused on the method, period, and place of enumeration, in relation to the difficulty of training personnel. The two methods of enumeration cited were self-enumeration and the interview technique, and it was felt that the most feasible way of combining them would be to adopt complete self-enumeration in some urban areas, or to use self-enumeration in such areas for some questions and enumerators for others. Although there was a consensus of opinion to the effect that the number of enumerators should be reduced so that they could be more adequately trained, concern was expressed inasmuch as such a measure would lengthen the enumeration period.

Another subject discussed was the basis on which data should be collected: the place of usual residence or the place where each person was at the time of the census. It was felt that tabulations based on the place of usual residence were more useful, but that in Latin America it was not yet possible to collect data on such a basis. However, as this method would probably have to be adopted in the future, its feasibility should be investigated by means of census tests. The concept of usual residence, however, is not a simple one to apply, since it involves not only a question of fact but also the intention to remain in a given area. Consequently, its successful use demands definitions of usual residence, temporary absence and internal migration, none of which has yet been recommended at either the world or the regional level.

The Seminar agreed upon the necessity of using the most simple and automatic methods of checking, coding and editing. In addition to mechanical checking and editing, many countries have used manual operations in their most recent censuses. Not only the computer technique but also the use of sampling in these census operations facilitates and speeds up data processing.

It was felt that the use of pre-coding was a great help in post-enumeration operations, and

as a general rule experience in that method had been very favourable. In connexion with the electronic processing of census data, the advantages and disadvantages of using computers were analysed at some length. The advantages described in the background document include the computer's tremendous potential for speed, versatility and accuracy, which far exceeds that of previous methods of processing census data. It is possible to transfer to the computer many manual operations, such as editing and correcting data, and assigning values when information is omitted in a questionnaire or when the information given is inconsistent or impossible. The computer can perform these operations with strict consistency and uniformity, and by recording its actions it provides a means of measuring the quality of the enumerated data, besides making it possible to prepare more detailed and more informative statistics. At reduced cost, it can produce key ratios and relationships as incidental by-products of tabulations; it can handle more variables by means of more detailed cross-classifications; it can match census data with those from other sources; it can prepare final tables for printing by offset printing processes; and, if magnetic tape is used, only a fraction of the space needed for the storage of punch-cards is required.

The use of computers may provide a means of reducing transcription errors if direct input of data can be accomplished through optical scanning of the original questionnaires. Since data of this type can also be produced by regional centres, there is no need to send all material to the central office.

Over against these advantages must be set the need for earlier planning, since the use of computers calls for more systematic data organization, and the preparation of highly detailed and explicit instructions before any operation can be started. Failure to consider all contingencies may bring the computer to a halt or result in the rejection of large numbers of records. For this reason, the programming and supervisory staff must be well trained and highly competent.

The capacity, speed and configuration of the computer greatly affect the processing plan, and in many cases will dictate the approach to the design of the enumeration form, field work, coding, input preparation, editing and tabulation.

The expanded use of new electronic data-processing equipment poses many problems for the census authorities. Among these are the

following: while the computer opens up great possibilities for the improvement of statistical systems, its mere presence will not solve problems, but will in fact create new ones which will require the attention of technically trained personnel. The use of computers does not immediately reduce the costs of data processing or the time it takes. Because more time is needed to train programmers and to write programmes than is generally available, the importance of early decisions with respect to the purchase or rental of a computer was stressed, and mention was made of the possibility that it may already be too late to decide upon using computers for censuses to be taken in 1970.

The training of programmers should be begun as early as possible. Computer manufacturers usually provide only initial training, and if training in programming and systems analysis is not available in special institutions or universities, an endeavour should be made to secure training fellowships or grants.

In the discussion of the census publication programme, it was established that a publication plan is indispensable, and as the publication and tabulation plans are interrelated, questions of publication must be decided during the early stages of the over-all plan. Thanks to modern data-processing and reproduction techniques, census results can now be published more rapidly and at less cost than in the past.

The first stage of publication is that of the preliminary results, which are based on check lists or other information provided by the enumerators and are generally subjected to preliminary revision and editing.

The publication of final census results is the primary objective pursued. Timing and content should be determined in accordance with consumer needs and the country's possibilities.

It is also advisable to publish an evaluation of the quality of the data, together with a description of the census methods, procedures and organization, and, as far as possible, a complete historical account of the census. The publication of a scientific analysis of the data and a comparison with earlier census results would also be extremely useful.

Another item on the agenda related to methods of evaluating the reliability of population and housing census data. An understanding of the sources and causes of error in the census data is of great value for the improvement of future censuses. The bulk of the errors in census results stem from the enumeration. Coverage errors are attributable to omission or under-enumeration, duplication or over-enumeration,

and erroneous inclusions. Errors of content include mistakes in reporting and/or recording information concerning the characteristics of living quarters, households and individuals. These are errors which affect the quality of the results, in contrast with quantitative errors which affect their magnitude.

There are both direct and indirect methods of evaluation. The direct methods (those which involve the checking of census returns against independently obtained records) include field checks, comparison with records from various registers, and internal checks of duplication. The indirect methods consist in critical analysis of the internal consistency of the census results and of the way in which these results conform to expected values obtained from other sources.

Great interest was displayed in the indirect methods of evaluation used by the Latin American Demographic Centre and in the corrections it is applying to population census results in attempting to use them for purposes of demographic research.

Sampling was another of the topics discussed. The discussion paper divided sampling uses into two categories, namely, sampling as an integral part of the census, and the use of the census as a sampling frame for subsequent inquiries. In the first of these categories, stress is laid on the saving in time and money achieved through sampling. In national censuses sampling techniques are used mainly to prepare samples of census respondents in order to obtain replies to other census questions; to carry out post-enumeration checks in order to examine the quality of the census data; to check the quality of census data processing by means of quality control plans; to prepare provisional estimates of the census results; and to prepare other studies on the basis of special tabulations from a sample of census records.

While the sampling processes may be simple, they often entail the work of large numbers of persons, and for this reason serious biases may be (and often are) introduced. It is therefore essential to set up and use controls of these procedures to detect and correct the more serious defects introduced by some of the staff.

Attention was drawn to the necessity of obtaining the services of sampling experts. Several ways of meeting this need were suggested, in-

cluding the following: a seminar on sampling procedures might be organized; greater emphasis should be placed on the practical aspects of university training in statistics; more importance should be attached to sub-regional co-operation, such as that now existing in Central America; existing training programmes should be more efficiently utilized; and attempts should be made to solve the problem at the national level, through support for students at the national universities or at the Inter-American Statistical Training Centre, or by sending them to study in other countries. The shortage of sampling personnel with practical experience was also mentioned. Training courses in the practical aspects of sampling are needed, and steps should be taken to retain competent statistical personnel, once trained, by offering them special financial inducements. The same applies to computer programmers.

Lastly, census tests were discussed, with reference to the experience of some Latin American countries (in particular, Chile, Costa Rica, Cuba and the Dominican Republic) in the conduct of census tests and pilot inquiries in connexion with the 1970 censuses. The term "census tests" is applied to all types of tests connected with a census, whether a questionnaire test only, a field trial or a pilot census. A distinction can be drawn between general and special types of census tests, according to the purposes served. General tests are intended to try out the three main stages of the census, i.e., the preliminary work before the enumeration, the enumeration itself and the post-enumeration work. Special census tests are for trying out one or more stages of the census operation, as well as new methods.

Census tests represent a valuable means of applying theoretical knowledge. Because of the long interval between population and housing censuses, this practical experience is essential for the staff of national census offices about to take a full-scale census. Census tests are also useful for the purpose of evaluating alternative methods of framing questions and determining the best sequence. As a rule, it is preferable to make several special tests rather than one general test, although the latter may be necessary in countries with little experience of taking censuses.

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