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## I. TRADE LIBERALIZATION PROGRAMME AND ITS RESULTS

Ten years after the inception of ALALC, the time has come for an analysis - within the limits of the statistical data available - of developments in the integration scheme established under the Montevideo Treaty and its immediate prospects. The analysis is divided into three parts: the first deals with the trade liberalization programme, which is the motive force of the Treaty and the second with the harmonization of operational policies and mechanisms; the third and last is an appraisal of the Contracting Parties' position vis-à-vis the operation of ALALC.

### A. INSTRUMENTS

#### 1. Programme for liberalizing intra-Area trade

##### (a) The negotiation of reductions in the National Schedules in 1961-1970

The machinery for selective negotiation designed to bring the free-trade area into full operation began operating smoothly, but after the first three years progress was slower (see table 1). The negotiations were more laborious and complex than had been expected, and fewer tariff reductions were made from 1965 onwards, with only slight improvements in 1966, and in 1968, when Bolivia and Venezuela, the two new parties to the Montevideo Treaty, joined in the negotiations. At the tenth regular session of the Conference of the Contracting Parties, which ended in December 1970, ALALC reached the lowest ebb in its history of negotiations: only thirty-one reductions were agreed on by no more than five of the eleven Contracting Parties, and they were for products of little significance in the region's present or potential trade.

/Table 1

Table 1

ALALC: NUMBER OF CONCESSIONS NEGOTIATED BY THE CONTRACTING  
PARTIES IN THE NATIONAL SCHEDULES, 1962-1971

Country	Years covered by the National Schedules									
	1962	1963	1964	1965	1966	1967	1968	1969	1970	1971
Argentina	414	1 072	1 280	1 363	1 537	1 621	1 717	1 839	1 867	1 870
Bolivia	-	-	-	-	-	-	178	194	192	192
Brazil	619	1 250	1 312	1 352	1 511	1 603	1 710	1 802	1 842	1 851
Colombia	268	619	704	714	745	751	766	777	777	777
Chile	343	833	864	872	894	917	959	970	972	973
Ecuador	-	1 714	1 677	1 680	1 685	1 689	1 697	1 720	1 718	1 718
Mexico	288	607	727	802	937	1 030	1 090	1 173	1 194	1 206
Paraguay	520	589	665	663	677	691	691	696	695	695
Peru	227	299	355	364	392	402	424	470	494	494
Uruguay	567	610	664	664	676	689	716	784	789	789
Venezuela	-	-	-	-	-	-	434	444	478	484
<u>Total</u>	<u>2 246</u>	<u>7 593</u>	<u>8 248</u>	<u>8 474</u>	<u>9 054</u>	<u>9 393</u>	<u>10 382</u>	<u>10 869</u>	<u>11 018</u>	<u>11 049</u>
Increase over the previous year		4 347	655	226	500	339	989	487	149	31

Source: ALALC secretariat.

/(b) Compliance

(b) Compliance with the tariff reduction rates established in the Montevideo Treaty

The slackening off in the negotiations is making it difficult to implement the trade liberalization programme established in chapter II of the Treaty, and to reach not only the 8 per cent annual reduction stipulated in article 5, but also the 2.9 per cent reduction which will come into force once all the Contracting Parties have ratified the Caracas Protocol, signed on 11 December 1969, which extends the original transition period. The extension of this period, which slows down the annual rate of reduction, confirms that the situation has deteriorated.

Up to the seventh regular session of the Conference, the Contracting Parties had always recorded their compliance with the reductions in customs duties and charges stipulated in article 5 of the Montevideo Treaty, although the result of their negotiations had not yet been verified.

The secretariat of ALALC has made provisional calculations of the weighted averages of duties and charges applied to third countries by nine of the eleven Contracting Parties,<sup>1/</sup> which show that most of the Contracting Parties have failed to comply fully with their liberalization commitments, since when the provisional weighted averages were calculated, only one country showed a satisfactory performance on both counts, and the performance of one other was satisfactory on just one of the counts.

The Standing Executive Committee suggested that the reasons for this state of affairs should be examined when the critical analysis was made of the existing instruments of the liberalization programme that are included in the 1970-1980 Plan of Action (Conference resolution 262 (IX)). The Negotiating Committee of the Conference accepted this proposal on the understanding that at the same time consideration should be given to the possibility of making the final calculations laid down in the Protocol on Norms and Procedures for Negotiations (title III, article 12) at the earliest possible opportunity.

These analyses would be useful because, as noted above, the Contracting Parties of ALALC have not yet been able fully to meet their commitments to grant each other gradual reductions in duties and charges equivalent to

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<sup>1/</sup> ALALC/C.IX/NEG/dt3.

a certain weighted average. The secretariat's provisional calculations, although incomplete and subject to revision, showed this quite clearly towards the eight year after ALALC entered into operation, and in 1969 and 1970 the gap between commitments and compliance was even greater.

(c) Obstacles to progress in the negotiations

The obstacles to regional integration have been reviewed in the documents entitled "A contribution to economic integration policy in Latin America" (E/CN.12/728) and "Hechos recientes en el proceso de integración latinoamericano" (E/CN.12/833). These documents showed that the liberalization programme had for some time been encountering serious and persistent obstacles, and that there was no sign of the adoption of any policy decision by the Contracting Parties that would enable them to attain the stipulated targets within the periods envisaged. The results of the latest negotiations indicate that the difficulties hampering ALALC in the attainment of its essential objectives are not only a question of speed or of the operating machinery; nor are they caused only by dissimilarities in physical conditions, different operating methods or shortcomings which impede co-ordinated action and effective economic co-operation between the Contracting Parties; the root-cause of the difficulties is the differences in the countries' approach to economic and political questions, and this must be dealt with in a realistic manner. These divergencies have become much sharper of late, particularly in the political sphere, which is so important in determining whether the objectives pursued in the Treaty will in fact be achieved.

On other occasions, reference has been made to two basic alignments of ALALC countries: some do not wish to depart from the guiding principles and machinery established in the Montevideo Treaty, while others are urging that the Contracting Parties' commitments be extended beyond strictly tariff and trade matters to concerted action or joint programming of important sectors of production. The persistence of the countries which want to try planned multinational action as a means of achieving their hopes and expectations led to the establishment of a subregional group of member countries which wished to facilitate their mutual development

/by means

by means of a concerted policy that would cover important aspects of economic and financial activity not included in the Montevideo Treaty. When this group began to function, ALALC was faced with new operational problems.

Briefly, main stumbling-blocks in the way of establishing a free trade area are the following:

- (i) The countries' different stages of development and economic potential;
  - (ii) Internal economic disparities within the countries;
  - (iii) Obvious differences in the countries' economic and financial policies and operational procedures and practices, and different conceptions of the part which should be played by regional economic co-operation and association in national development strategies;
  - (iv) Lack of competitive spirit among entrepreneurs in the Area;
  - (v) Uncertainty concerning the possible effects of trade liberalization in a sphere which does not allow competition on an equal footing;
  - (vi) The balance-of-payments problems that have been affecting several of the ALALC countries;
  - (vii) The fact that no steps have been taken or planned to link the preferences of the subregion with those for the whole Area, and
  - (viii) The small share of intra-Area trade in the total foreign trade of nearly all the Contracting Parties.
- (d) Present problems

Some of these obstacles are so enormous as to make anyone doubt the possibility of the objectives of the Treaty being attained within the stipulated periods, even if the changes envisaged in the Caracas Protocol are introduced.

If the operational difficulties were of a practical kind only, the general political will consistently and actively to support the measures adopted by the Contracting Parties would make it possible to overcome them and would pave the way for a process, albeit complex and requiring adjustments, which would culminate in the attainment of the above-mentioned

/objectives. After

objectives. After the ALAIC integration process has been evaluated and the Caracas Protocol ratified, the situation can be clarified only when the Contracting Parties agree on the essential points of the ALAIC Plan of Action for 1970-1980.

For the present, the clearest guidelines are the priorities set for implementing this Plan, which in 1970-1973 go almost exclusively to preparatory studies and activities that will serve as a basis for discussion and decision-making on the essential point. Meanwhile, the two approaches described above are still observable in ALAIC: that of the countries supporting the system of gradual tariff reductions with a view to establishing a free trade area, and that of the countries which, particularly since the signing of the Cartagena Agreement, believe that co-operative and integration should be based on the jointly programmed development of a large part of the manufacturing sector and of the related activities that have to be brought into line with it if co-operation is to be carried on on an equitable basis.

It is too soon to predict the main effects of the Cartagena Agreement on ALAIC. Thus far there has been only a logical tapering off in the negotiations undertaken by the signatory countries, which are reorganizing their forces and considering what programme of action they themselves should adopt within the complex system established by the Cartagena Agreement. Until the sectors of activity to be covered by this joint programme, its objectives and its means of implementation are clearly defined, the present situation is likely to continue. Once this has been done, however, it will be possible to give some thought to possible ways of linking the operation of the subregional group with that of ALAIC, a task on which the future progress of the Association largely depends.

2. Special lists of advantages in favour of countries at a relatively less advanced stage of economic development which are not extended to other Contracting Parties

These special advantages are granted by the Contracting Parties to the relatively less developed countries under article 32 of the Treaty. They are therefore applicable to Bolivia, Ecuador, Paraguay and, temporarily, to Uruguay (resolution 204/CM-II/VI-E and 260 IX).

The tariff reductions on these special lists constitute an exception to the most-favoured-nation clause (article 18 of the Treaty) and, in principle, are not subject to reciprocity. Table 2 reveals no spectacular progress has been made in regard to these lists, the most important advance being the 293 concessions granted to Uruguay since 1968.

Recently, the relatively less developed countries have concentrated their requests on a limited number of products of prime interest because of their immediated export possibilities and because they are associated with productive projects of importance in connexion with external trade.

3. The Common Schedule

(a) Negotiations

In compliance with the provisions in chapter II of the Treaty on negotiating the Common Schedule (in which must be included, at three-year intervals, those products which the Contracting Parties undertake to free of all duties and charges by the end of the transition period, and which represent the percentages of the total value of intra-Area trade laid down in article 7), two rounds of negotiations have been held. The first round, covering the first three-year period, was satisfactorily concluded after lengthy negotiations, and the final act on the negotiations was signed on 7 December 1964. This first section of the Common Schedule includes 175 tariff items, and on the date the act was signed it represented just over 25 per cent of the value of the trade among the Contracting Parties.

/Table 2

Table 2

ALAIG: NUMBER OF CONCESSIONS CONTAINED IN THE SPECIAL LISTS, 1963-1971

Granted to	1963	1964	1965	1966	1967	1968	1969	1970	1971
Bolivia	-	-	-	-	-	379	401	401	401
Ecuador	988	1 145	1 193	1 194	1 274	1 290	1 295	1 293	1 293
Paraguay	4 694	4 792	4 805	4 861	4 906	5 143	5 203	5 208	5 209
Uruguay	-	-	-	-	-	138	261	293	293
<u>Total</u>	<u>5 622</u>	<u>5 937</u>	<u>5 998</u>	<u>6 045</u>	<u>6 180</u>	<u>6 950</u>	<u>7 160</u>	<u>7 195</u>	<u>7 196</u>

Source: ALAIG secretariat.

/The second

The second round of negotiations began at the end of 1967, at the seventh regular session of the Conference, and there was difficulty in drawing up a list that would be acceptable to all the Parties although it contained some special safeguard measures and that would cover the 50 per cent of the trade among the Contracting Parties established as a goal for the second three-year period. The draft of the final act which was put to the vote included NABALALC tariff items representing slightly over 24 per cent of the total volume of intra-Area trade, on the basis of the calculations for the three-year period 1963-1965. Calculated on this same basis, the products included in the first section of the Common Schedule amounted to over 28 per cent of Area trade, so that the commitment for the second three-year period had been complied with. Since the draft was rejected, however, the Conference recommended that the Standing Executive Committee should explore ways and means of overcoming the difficulties that had arisen, facilitating future negotiations and helping the Contracting Parties to comply, after the transition period, with the commitments they had assumed under the Treaty with regard to the Common Schedule.

(b) Present position

There was a long and detailed discussion of the reasons for the Contracting Parties' failure to meet the requirements laid down in article 7 of the Treaty, and it was followed by the adoption of the Caracas Protocol, which amended the Treaty and introduced some new provisions relating to the Common Schedule.

In addition to extending the transitional period to 31 December 1980 and recommending that the Standing Executive Committee should carry out studies to ensure the more satisfactory attainment of the Treaty's objectives and, if necessary, to adapt it to a further stage of economic integration, the Protocol states that the Contracting Parties shall establish not later than 31 December 1974, new norms for compliance with the commitment to adopt the Common Schedule. It also provides that, on the same date, they shall revise article 5 of the Treaty and the provisions of title I of the Protocol on Norms and Procedures for Negotiations. The document goes on

/to say

to say that compliance with the periods and percentages laid down in article 7 of the Treaty shall not be compulsory until such time as the norms referred to have been adopted.

#### 4. Sectoral agreements

##### (a) Negotiations between 1961 and 1970, and their results

The ALALC trade liberalization programme comprises: the complementarity agreements, the National Schedules, the Common Schedule, and special treatment for countries at a relatively less advanced stage of economic development (not to be extended to other States).

According to the provisions in force during the first few years of ALALC's existence (resolutions 15 (I) and 48 (II)), the concession that each country granted under the complementarity agreements were to form part of the corresponding National Schedules, so that any concession agreed upon between two countries would be extended to all the others. Furthermore, when all the Contracting Parties were signatories of a complementarity agreement, the concessions would automatically be considered part of the Common Schedule. (See table 3 for the list of agreements concluded to date, and some data on them.)

Agreement No. 1 was little more than a consolidation of agreements previously negotiated by the countries in connexion with their National Schedules, consisting of products on which the duties and charges had already been lifted, so that it did not represent any great change in the existing situation.

At the fourth session of the Contracting Parties, held at the end of 1964, a new system was established for complementarity agreements. Resolution 99 (IV) introduced the new principle that the conclusion of an agreement of this kind constituted an exception to the Treaty's most-favoured-nation clause since the advantages agreed upon by the signatories are not automatically extended to the other Contracting Parties except in return for compensation of some kind; but they are extended without any compensation whatever to countries at a relatively less advanced stage of development. This did away with the obligation to include the concessions in the National Schedules, and with their irrevocability. Consequently, the trade liberalized by means of the concessions granted in complementarity agreements ceased to be taken into account in the computations relating to article 5 of the Treaty.

/Table 3

Table 3

ALALC: LIST OF COMPLEMENTARITY AGREEMENTS CONCLUDED AND OF THE CONCESSIONS GRANTED TO THE PARTIES  
TO EACH AGREEMENT

Agreement Nº	Industrial sector	Date of			Number of products of the sector	Number of concessions									Total	
		Signa- ture	Declara- tion of compati- bility	Expected entry into force		Argen- tina	Boli- via	Bra- zil	Colom- bia	Chile	Mexi- co	Peru	Uruguay	Vene- zuela		
1	Statistical and other punch- card machines	1962	1962	1963	5	5		5		5			5			20
2	Electronic valves	1964	1964	1964-5	17	17		17		17	17		17			85
3	Electrical, mechanical and thermal appliances for domestic use	1966	1966	1966	13			13					7			20
4	Electronic and electrical communications equipment	1966	1966	1966	12			8					9			17
5	Chemical products	1967	1968	1968-9	221	89		127	26	54	114	39	14	24		487
6	Petrochemical products	1968	1968	1968-9	39		36		37	32		37				142
7	Household goods	1968	1968	1968	31	22							17			39
8	Glassware	1969	1969	1969-70	58	11					36					47
9	Generation, transmission and distribution of electricity	1969	1969	1970	28			28			28					56
10	Office machines	1970	1970	1971	32	17		17			17					51
11	Office machines	1970	1970	1971	4	3		3			3					9
12	Electronic and electrical communications equipment	1970	1970	1971	41			41			42					83
13	Gramophones	1970	-		5	5		5			5		5	7		27
14	Refrigerating and air conditioning equipment and electrical, mechani- cal and thermal appliances for domestic use	1970	1970	1971	25			21			21					42
15	Pharmaceutical chemicals	1970	1970	1971	300	149		141			149					439
16	Petrochemical products	1970	1970	1971	300	20		16			17			14		67
	<u>Total</u>				<u>1 131</u>	<u>338</u>	<u>36</u>	<u>442</u>	<u>63</u>	<u>108</u>	<u>449</u>	<u>76</u>	<u>74</u>	<u>45</u>		<u>1 631</u>

Source: ALALC document CEP/Repartido 1074/Rev. 11 and data supplied by the ALALC secretariat.

The new system was intended to encourage growing use of this additional form of trade liberalization in ALALC, and was helped along by the joint declaration of Argentina, Brazil and Mexico at the fourth Conference that they would not intervene in complementarity agreements designed to promote the industrial expansion of countries with insufficient markets or at a relatively less advanced stage of economic development.

A certain number of agreements, some of which were fairly important, were signed in 1966, 1967, 1968 and 1969, but in 1970 the pace quickened: seven new agreements were signed and it was agreed to extend agreement No. 9, thus bringing the number now in force up to sixteen.

(b) Current operation of the agreements

Although, as mentioned above, the liberalization programmes envisaged under the complementarity agreements are not official tariff-reductions for improving the operation of the free trade area, they undoubtedly contribute towards the attainment of the ultimate objectives.<sup>2/</sup> It is not possible to say exactly what positive influence these agreements have had in the absence of more detailed statistical data on the trade to which they have given rise are currently available so that all that can be done is to list the concessions and tariff reductions covered by the agreements.

Table 4 shows how agreements 1 and 2 have already affected the flow of trade. As can be seen, imports of products covered by these agreements have tended to be channelled through them, bringing about an effective replacements of extra-Area imports.<sup>3/</sup>

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<sup>2/</sup> No official decision has yet been reached regarding the fate of concessions granted under complementarity agreements that were not included in the Common Schedule at the end of the transitional period. There are two possibilities: one, these reductions may remain in force until the collective negotiations provided for in article 61 of the Treaty have taken place; two, the countries may remain free to do as they see fit from the end of the transitional stage until the negotiations are held.

<sup>3/</sup> ALALC countries not signatories to the agreements have little or no share in this trade.

Table 4  
ALALC: IMPORTS COVERED BY COMPLEMENTARITY AGREEMENTS NOS. 1 AND 2,  
AND TOTAL IMPORTS OF THOSE PRODUCTS a/  
(Thousands of dollars and percentages)

	1962 <u>a/</u>	1963	1964	1965	1966	1967
<u>Agreement No. 1 b/</u>						
(1) Imports covered by the agreement	9.7	489.9	491.5	851.8	1 482.3	3 120.2
(2) Total imports	8 446.0	8 245.8	8 873.4	7 981.5	9 678.0	12 609.8
Percentage ratio of (1) to (2)	-	6%	6%	11%	15%	25%
<u>Agreement No. 2</u>						
(1) Imports covered by the agreement			155.1	1 252.5	1 539.7	2 188.6
(2) Total imports			9 442.8	9 731.8	13 675.8	12 917.5
Percentage ratio of (1) to (2)			2%	13%	11%	17%

Source: Unpublished statistics provided by the ALALC secretariat.

a/ The first years for which figures are given (1962 and 1964) correspond to the signing of the respective agreements.

b/ Agreement No. 1: Argentina, Brazil, Chile and Uruguay. In the absence of 1967 figures for Chile, those for 1966 were used again.

c/ Agreement No. 2: Argentina, Brazil, Chile, Uruguay and Mexico.

/Though full

Though full data are not available on the other complementarity agreements, partial information suggests that the process of import substitution shown in table 4 also occurs to a greater or lesser extent in the other cases. In the absence of figures illustrating the absolute and relative volume of trade generated by the agreements, various comparisons have been made on the basis of the number of concessions or tariff reductions granted. These comparisons are given in table 5, but they should be interpreted with all due caution.

One glance at table 5 reveals that the total number of concessions granted so far in complementarity agreements (1,631) amount to nearly 15 per cent of those granted in the National Schedules. The nature of the reductions differs somewhat, however, since in the latter case they apply to all the Contracting Parties, and in the former only to the signatories of the agreements. Nor is there necessarily any relationship between the number of concessions and the volume of trade generated thereby. Generally speaking, however, there is no denying the clear-cut tendency that has developed over recent years, namely, the decline in the importance of the National Schedules and the corresponding rise of that of complementarity agreements as a vehicle for concessions. This is largely due to the actual form of the complementarity agreements and to the different positions that the countries have adopted with regard to integration, especially since the signing of the Cartagena Agreement.

The following are some of the reasons for the popularity of complementarity agreements: (1) they are safer and involve less risk in granting concessions, since it is known from the start who will be benefiting from the tariff reductions; (2) most of them include denunciation clauses, which give them a certain degree of flexibility as regards the possibility of withdrawing the concessions (in the case of the National Schedules the withdrawal of concessions may involve lengthy and complicated procedures); (3) the diversification of the industrial sector of countries at a more advanced stage of economic development means that they have the best opportunities for entering into such agreements.

/Table 5

Table 5  
ALALC: NUMBER OF CONCESSIONS GRANTED IN NATIONAL SCHEDULES,  
AND NUMBER INCLUDED IN COMPLEMENTARITY AGREEMENTS

Entry into force of the concessions <sup>a/</sup>	Number of concessions		
	Granted in National Schedules	Included in comple- mentarity agreements	
1962	3 246	(1)	20
1963	4 347		-
1964	655	(2)	85
1965	226		-
1966	580	20 (3) 17 (4)	37
1967	339		-
1968	989	292 (5) 142 (6) 39 (7)	473
1969	487	47 (8) 16 (9)	63
1970	149	51 (10) 9 (11) 195 (ampl. 5)	255
1971	31	40 (ampl. 9) 658 (12 to 16)	698
<u>Total</u>	<u>11 042</u>		<u>1 631</u>

Source: ALALC secretariat.

<sup>a/</sup> For concessions granted in National Schedules, the year given is that of their entry into force; for those included in complementarity agreements, the year given is that of the corresponding declaration of compatibility.

/Judging from

Judging from the most recent agreements and those that are currently being negotiated or at the drafting stage, the countries most interested in them seem to be those that were not signatories to the Cartagena Agreement. The fact that Uruguay and Venezuela are parties to many of the agreements would appear to disprove the contention that these agreements are only suitable for countries with a diversified manufacturing industry; moreover, their use by non-Andean countries may be due precisely to the position adopted by the Andean countries. Some years ago, the attitude of the latter to agreements that are now in force or at the drafting stage was quite different.

All this, however, does not satisfactorily explain the growing popularity of complementarity agreements among non-Andean countries; the decisive factor was the creation of the Andean Group (signatories of the Cartagena Agreement) and its subsequent stand vis-à-vis ALALC's liberalization programme.

The Andean countries have, in fact, virtually decided to make their possible participation in ALALC complementarity agreements subject to the approval of the Board of the Cartagena Agreement (decision No. 8 of the Board) and, whether by mutual consent or not, have adopted a more or less abstentionist attitude towards the annual negotiations. This attitude came to the force at the last Conference in the debate on the suggestions of the sectoral meetings of entrepreneurs with regard to negotiations on products to be included in the National Schedules. The signatories to the Cartagena Agreement did not deem it advisable even to initiate contacts, an attitude which resulted in a similar refusal by the other countries, especially the three that are more developed. To justify this position, it was claimed that the set of proposed tariff reductions was so carefully distributed among all the countries participating in the sectoral meetings that it was impossible to leave out some of them without upsetting the whole balance of the proposals.

The popularity of complementarity agreements has been further increased by the introduction of procedures that make it easier to control and organize the trade liberalization programme that they contain. A

/comparison of

comparison of the National Schedules with the complementarity agreements shows that the latter offer the lowest residual duties and charges and the biggest margins of preference for the same products and sectors.

Without intending any kind of value judgement, it can therefore be said that countries have more room for manoeuvre with complementarity agreements than with National Schedules and therefore prefer them, and that, since the situation is not likely to change in the near future, they will continue for a while to sign more and more complementarity agreements. A list of draft agreements is to be found in table 6.

At least three of the draft agreements listed in table 6 relate to the electrical and electronics industry, where they could promote a volume of trade worth between 50 and 60 million dollars. Furthermore, it seems probable that negotiations affecting other industries will shortly reach a satisfactory conclusion.

It is difficult to make any forecasts about the draft agreements submitted to the Standing Executive Committee that appear in section II of table 6, which have not yet been transmitted to the Governments, but it is likely that most of them will be adopted.

As regards those drafts on which the Contracting Parties have shown no interest in initiating negotiations, any hope of their being adopted as agreements in the near future must be ruled out. They might possibly be used in drawing up schemes for reductions.

In brief, there is a great deal of scope for complementarity agreements, even though the Cartagena Agreement countries may decline to be parties to them. It might be asked, however, whether the increase in the number of complementarity agreements really encourages integration through ALAIC.

Table 6

ALALC: LIST OF DRAFT COMPLEMENTARITY AGREEMENTS AT 31 DECEMBER 1970

Industrial sector	Participating country (C) or entrepreneurs (E)										
	Argentina	Bolivia	Brazil	Chile	Costa Rica	Guatemala	Honduras	Paraguay	Peru	Uruguay	Venezuela
I. Drafts on which negotiations have officially started or are due to start in the immediate future a/											
- Refrigerating and air-conditioning equipment and electrical, mechanical or thermal appliances for domestic use (draft 2) b/	C		C							C	
- Refrigerating and air-conditioning equipment and electrical, mechanical or thermal appliances for domestic use (draft 3) b/	C		C								
- Electronic and electrical communications equipment (draft 1) b/	C		C							C	
- Preserved fruits and vegetables b/	C		C							C	
- Plastics	E		E		E					E	
- Instruments, equipment and apparatus for doctors, veterinarians, dentists, etc. (draft 1)	E		E							E	
- Instruments, equipment and apparatus for doctors, veterinarians, dentists, etc. (draft 2)	E		E							E	
II. Drafts submitted to the Standing Executive Committee in 1970 or due to be transmitted to the Governments concerned for further action g/											
- Paper and pulp d/	E		E							E	
- Machine tools	E		E							E	
- Machinery for bakeries, cake and pastry and biscuit makers	E		E							E	E
- Lamps and lighting units	E		E							E	
- Cosmetics, soap and allied products (draft 1)	E		E							E	
- Cosmetics, soap and allied products (draft 2)	E		E							E	
- Textile machinery	E		E							E	
- Alcoholic beverages	E		E							E	
- Chemical fibres	E		E							E	

/Table 6 (concl.)

Table 6. ALALC: LIST OF DRAFT... (concluded)

Industrial sector	Participating country (C) or entrepreneurs (E)										
	Argen- tina	Boli- via	Bra- zil	Co- lon- bia	Chile	Ecu- dor	Me- xico	Para- guay	Peru	Uru- guay	Vene- zuela
<b>III. Drafts submitted to the Governments by the Standing Executive Committee on which no decision has yet been taken <sup>a/</sup></b>											
- Machine tools	E		E				E				
- Machines for the dairy and milling industries			E				E				
- Automatic looms	E						E				
- Mining and road-making machinery (draft 1)	E		E				E				
- Mining and road-making machinery (draft 2)	E		E								
- Mining and road-making machinery (draft 3)			E				E				
- Rubber	E		E	E							
- Meters for gas, water and other liquids			E		E						
- Traffic lights	E		E		E		E				
- Motor-vehicle industry (draft 1)	E				E					E	
- Motor-vehicle industry (draft 2)											
- Tools	E						E				
- Internal combustion engines	E		E								
- Tractors	E		E								
- Citrus products	E						E				
- Motor-vehicle spare parts	E		E								
- Motorcycles, motor scooters and bubble cars	E		E					E		E	
- Valves for industrial use			E	E			E				
Iron and steel <sup>d/</sup>	C		C	C			C		C		C

Source: ALALC secretariat.

- <sup>a/</sup> Drafts on which official negotiations have already begun (the first four on the list) and those on which at least two countries are expected to start negotiations within the next few months.
- <sup>b/</sup> Negotiations suspended; the negotiations on the preserved fruits and vegetables draft will probably remain so for longer than the others, as the suspension stems from Decree No. 191/70 of the Argentine Republic (modification of Area preference margins).
- <sup>c/</sup> Including drafts which the Committee received from the entrepreneurs during 1970 but has not yet transmitted to the Governments.
- <sup>d/</sup> Drafts including concessions that are granted for a limited period or volume of trade or both - known as "surplus and shortage" agreements.
- <sup>e/</sup> Including drafts that the Committee has already transmitted to the Governments and in which the latter have not yet shown any interest. In view of the time that has passed with no official reaction whatsoever, it seems unlikely that they will reach the official negotiating stage, at least in the near future.

According to

According to the Montevideo Treaty, trade liberalization is to be carried out by means of the National Schedules and the Common Schedule. The liberalization programmes of the complementarity agreements are merely an auxiliary mechanism of the ALALC liberalization programme, so that they cannot be a substitute for the steps that ALALC must take to ensure that the duties and charges on the bulk of the trade between the Contracting Parties are eliminated by the end of the transitional period, i.e., at the end of 1980 (as stipulated in the Caracas Protocol). Moreover, there is some apprehension that the agreements may be impairing the effectiveness of the tariff reductions granted in the National Schedules, and about the surplus and shortage agreements, under which concessions are granted for a limited period or volume of trade or both.

There is no doubt that complementarity agreements are an additional aid to promoting trade flows, but it is feared that in some cases, such agreements may be obstacles to finding formulas for trade liberalization through the programme for trade liberalization laid down in the Treaty.

In short, everything points to the fact that, at least until 1974, when important decisions will again have to be taken on the future of ALALC, especially in respect of the machinery of trade liberalization, there will be a continuation of the trend towards the conclusion of complementarity agreements, particularly between the more developed countries and, in some cases, Uruguay and Venezuela also. And it is likely that there will continue to be very few new tariff reductions on the National Schedules.

/B. RESULTS

B. RESULTS

1. Evolution of intra-Area trade

(a) Intra-Area trade and total trade: development and relative importance

Table 7 shows intra-Area trade for the decade prior to the entry into operation of ALALC and for the nine years following it. As can be seen from the table, intra-Area trade declined in the years prior to the entry into operation of the Montevideo Treaty and grew steadily between 1962 and 1969: trade between the oldest Contracting Parties (excluding Bolivia and Venezuela, which did not really become active participants until 1968) nearly tripled between 1961 and 1969, rising from 659 to 1,940 million dollars. If account is taken of the trade of Bolivia and Venezuela, intra-Area trade amounted to 2,047 million dollars in 1968 and 2,473 million in 1969. After 1962 there was a change in the trend of immediately preceding years and the intra-Area trade of the Contracting Parties grew more than their total trade (see table 8).

The figures for trade between the Contracting Parties are given in table 9, together with their annual trade balances, thus providing a balance-sheet for the operations of ALALC. The table shows that there was an increase in the exports of all the member countries, but that the growth rate was uneven, and in some cases, there was no improvement or even a deterioration in the unfavourable trade balance. This situation is due to the slow-changing structural conditions; it has given rise to lengthy discussions concerning reciprocity and the equitable distribution of the benefits of the programme for trade liberalization, and has made the more dissatisfied member countries increasingly more loath to continue granting tariff reduction.

/Table 7

Table 7

LATIN AMERICAN FREE TRADE ASSOCIATION: INTRA-AREA TRADE

(Millions of dollars)

Year	Area exports		Area imports		Area total		Index of the total 1961 = 100	
	(1)	(2)	(1)	(2)	(1)	(2)	(1)	(2)
1952	359		449		808		123	
1953	509		525		1 034		157	
1954	495		539		1 034		157	
1955	508		574		1 082		164	
1956	358		408		766		116	
1957	396		441		837		127	
1958	374		403		777		118	
1959	324		355		679		103	
1960	340		375		715		108	
1961	299	489	360	588	659	1 077	100	100
<u>Montevideo Treaty</u>								
1962	353		420		773		117	
1963	425		506		931		141	
1964	556		645		1 201		182	
1965	635		771		1 406		214	
1966	675		782		1 457		221	
1967	651		760		1 411		215	
1968	762	1 000	848	1 074	1 610	2 074	244	193
1969	919	1 182	1 021	1 291	1 940	2 473	294	230

Source: IMF, Direction of Trade, 1952-1957; ALALC statistical department, on the basis of information supplied by the Contracting Parties.

- (1) Excluding Bolivia and Venezuela.  
(2) Including Bolivia and Venezuela.

Table 8

LATIN AMERICAN FREE TRADE ASSOCIATION: INTRA-AREA TRADE AND TOTAL TRADE

(Millions of dollars)

Year	Exports			Imports			Exports and Imports		
	AIAIC	Total	AIAIC Percentage share	AIAIC	Total	AIAIC Percentage share	AIAIC	Total	AIAIC Percentage share
1961	249	4 790	6.2	360	6 023	6.0	659	10 813	6.1
1962	353	5 046	6.9	420	5 936	7.1	773	10 982	7.0
1963	425	5 463	7.8	506	5 671	8.9	931	11 134	8.4
1964	556	5 943	9.4	645	5 993	10.8	1 201	11 936	10.1
1965	635	6 349	10.0	771	6 014	12.8	1 406	12 363	11.4
1966	675	6 915	9.8	782	6 861	11.4	1 457	13 776	10.6
1967	650	6 713	9.7	760	7 075	10.7	1 411	13 788	10.2
1968	1 000 <sup>a/</sup>	10 326 <sup>a/</sup>	9.7	1 074 <sup>a/</sup>	9 628	11.2	2 074 <sup>a/</sup>	19 954 <sup>a/</sup>	10.4
1969	1 182 <sup>a/</sup>	11 433 <sup>a/</sup>	10.3	1 291 <sup>a/</sup>	10 570	12.2	2 473 <sup>a/</sup>	22 003 <sup>a/</sup>	11.2

Source: AIAIC statistical department.

<sup>a/</sup> Including Bolivia and Venezuela.

Table 9  
LATIN AMERICAN FREE TRADE ASSOCIATION: TRADE BETWEEN THE CONTRACTING PARTIES  
(Millions of dollars)

Year	Trade	Argen- tina	Bolivia	Brazil	Colom- bia	Chile	Ecuador	Mexico	Paraguay	Peru	Uruguay	Vene- zuela
1952/1961 a/	Exports fob	145.4		116.1	3.6	42.3	8.1	5.4	12.5	44.9	17.8	
	Imports cif	158.5		125.3	11.7	70.5	3.6	2.7	9.8	23.0	38.1	
	Balance	-13.1		-9.2	-8.1	-28.2	4.5	2.7	3.1	21.9	-20.3	
1957/1961 a/	Exports fob	130.6		107.9	4.3	34.3	7.6	5.6	10.4	39.0	7.0	
	Imports cif	138.3		98.2	8.8	66.9	3.2	3.5	9.7	26.1	32.1	
	Balance	-7.7		9.7	-4.9	-32.6	4.4	2.1	0.7	12.9	-25.1	
1959/1961 a/	Exports fob	133.4		85.6	4.5	34.8	6.7	6.1	8.7	38.5	4.0	
	Imports cif	113.3		90.2	8.5	77.0	3.5	3.9	9.0	26.7	31.5	
	Balance	20.1		-4.6	-4.0	-42.2	3.2	2.2	-0.3	11.8	-27.5	
1961	Exports fob	100.0		95.2	6.1	34.8	7.5	7.9	9.9	31.5	5.8	
	Imports cif	126.0		45.2	10.4	94.0	4.1	4.1	9.8	31.8	34.5	
	Balance	-26.0		50.0	-4.1	-59.7	3.4	3.8	0.1	-0.3	-28.7	
1962	Exports fob	141.4		75.8	7.3 b/	39.4	6.1 g/	16.7	10.9	47.3	8.0	
	Imports cif	103.2		128.6	12.5 b/	80.5	3.9 g/	6.1	6.0	45.2	34.0	
	Balance	38.2		-52.8	-5.2 b/	-41.1	2.2 g/	10.6	4.8	3.6	-26.0	
1963	Exports fob	185.0		76.0	6.1	49.3	8.0	26.0	10.7	48.5	15.0	
	Imports cif	101.6		163.9	21.4	100.0	5.2	10.8	9.4	62.0	31.8	
	Balance	83.6		-87.9	-15.3	-71.0	2.8	15.2	1.3	-13.5	-16.8	
1964	Exports fob	218.4		132.8	11.1	54.5	11.1	34.0	14.8	64.1	15.0	
	Imports cif	170.7		168.0	33.1	128.9	7.6	17.3	11.5	58.9	49.3	
	Balance	47.1		-35.2	-22.0	-74.4	5.3	16.7	3.3	5.2	-34.3	
1965	Exports fob	231.1		197.4	16.7	53.2	13.2	36.3	17.5	54.1	15.6	
	Imports cif	255.7		190.4	38.4	122.1	9.0	29.7	13.1	81.0	32.1	
	Balance	-24.6		7.0	-21.7	-58.9	4.2	6.6	6.1	-26.9	-16.5	
1966	Exports fob	242.7		181.5	29.1	53.7	12.5	56.7	20.0	52.3	26.8	
	Imports cif	226.7		167.0	56.0	138.4	8.3	33.7	14.2	91.5	46.8	
	Balance	16.0		14.5	-26.9	-84.7	4.2	23.0	5.8	-39.2	-19.2	

/Table 9 (concl.)

Table 9 (conclusion)

Year	Trade	Argen- tina	Bolivia	Brazil	Colom- bia	Chile	Ecuador	Mexico	Paraguay	Peru	Uruguay	Vene- zuela
1967	Exports fob	271.4		154.2	18.8	78.0	14.4	47.6	15.6	33.3	17.0	
	Imports cif	212.0		171.6	31.9	143.3	12.6	38.2	16.5	89.9	44.1	
	Balance	89.4		-17.4	-13.1	-65.3	1.8	9.4	-0.9	-56.6	-27.1	
1968	Exports fob	338.1	15.9	193.1	34.2	91.8	16.4	62.2	16.2	50.4	18.9	165.1
	Imports cif	275.3	18.9	276.7	48.0	178.1	20.5	42.9	16.8	107.8	42.0	47.1
	Balance	-62.8	-6.8	-83.6	-13.8	-86.3	-4.2	-19.3	-0.6	-57.3	-23.1	-118.0
1969	Exports fob	364.3	15.9 d/	254.1	54.7	114.1	17.1	86.7	18.9	57.4	30.6	168.3
	Imports cif	365.9	26.7 e/	291.4	75.3	217.0	20.6	51.9	17.1	106.2	58.2	61.5
	Balance	-1.6	-10.5	-37.3	-20.6	-102.9	-4.5	-14.8	-1.8	-48.8	-27.6	-106.8

Source: Official statistical offices of the Contracting Parties.

a/ Annual average.

b/ Colombia took part in negotiations as a member of ALALC in March 1962, and its National Schedule became effective on 1 April 1962.

c/ Ecuador joined ALALC at the Second Conference (1962) and its Schedule became effective on 1 January 1963.

d/ Figures for the previous year repeated.

e/ Estimates.

(b) Structure of intra-Area trade

The expansion of intra-Area trade was accompanied by a diversification of its structure that it is as yet impossible to measure for lack of adequate and up-to-date data. On the one hand, the ALAIC statistical department receives a much of the data from the national statistical offices very late, and it has to cope with the problem of the lack of precise co-ordination between NABALALIC and certain other nomenclatures; on the other hand, the department was at a standstill for quite a long time while changes were being made in its equipment.

At all events, it has been shown that manufactures, including some of sophisticated technology that were previously imported from outside the region, such as machinery and transport equipment, office machines, electrical appliances and miscellaneous manufactured goods, are occupying an increasingly important place in intra-Area trade.

The most recent analysis of intra-Area trade carried out by the ALAIC secretariat deals with the composition of imports of products included in the 1962-1967 programme for trade liberalization. In that period, total intra-Area imports amounted to about 3,350 million dollars, of which 1,811 million (54 per cent) was accounted for by primary commodities, 982 million (29 per cent) by semi-finished goods, and 557 million (17 per cent) by finished articles.

Table 10 provides incomplete preliminary information on intra-Area imports of manufactures in 1963-1967, on the basis of the SITC nomenclature, section 6 of which "manufactured goods classified chiefly by material", includes metal ingots.

/Table 10

Table 10  
LATIN AMERICAN FREE TRADE ASSOCIATION: INTRA-AREA IMPORTS OF MANUFACTURES  
(Thousands of dollars)

SITC sections	1963	1964	1965	1966	1967
5 Chemicals	21 524	25 269	31 607	40 087	36 267
6 Manufactured goods	72 940	86 386	119 679	93 086	117 369
7 Machinery and transport equipment	17 587	25 055	42 236	47 067	53 606
8 Miscellaneous manufacture articles	7 896	8 517	9 603	14 365	18 096
<u>Total manufactures</u>	<u>119 947</u>	<u>145 227</u>	<u>203 125</u>	<u>194 605</u>	<u>225 338</u>
	<u>Indexes (1963 = 100)</u>				
5 Chemicals	100	117.4	146.8	186.2	168.5
6 Manufactured goods	100	118.4	164.0	127.6	160.9
7 Machinery and transport equipment	100	142.4	240.0	267.6	304.8
8 Miscellaneous manufactured articles	100	107.8	121.6	181.9	229.1
<u>Total manufactures</u>	<u>100</u>	<u>121.0</u>	<u>169.3</u>	<u>162.2</u>	<u>187.8</u>
<u>Total imports</u>	<u>100</u>	<u>126.7</u>	<u>152.4</u>	<u>154.4</u>	<u>150.2</u>

Source: ALAIC secretariat.

/II. HARMONIZATION

## II. HARMONIZATION OF POLICIES, MACHINERY AND OPERATIONAL METHODS

### 1. Trade Policy

#### (a) Tariff questions

At its inception the Association adopted the Brussels Tariff Nomenclature (BTN) to keep track of the products that were the subject of negotiations; but it subdivided some of the items in a quite haphazard way. The resulting ALALC tariff nomenclature (NABALALC) can therefore be used to record and interpret the concessions negotiated by the Contracting Parties under the programme for trade liberalization.

The Contracting Parties have made progress in adapting their former nomenclatures to the BTN, and seven of them have adopted the revised BTN, but they have not got very far with the fundamental task, that is to say, the harmonization of their customs legislation and tariff systems. The ALALC secretariat is now collecting and classifying the huge volume of existing customs laws and regulations, with a view to the ultimate adoption of a uniform customs code for the whole Area.<sup>4/</sup>

#### (b) Promotion of intra-Area trade

The Contracting Parties have been showing interest in harmonizing their systems of incentives and their trade promotion activities.<sup>5/</sup> Another point in which they seem to be increasingly interested is the possibility of setting up new import promotion machinery and of improving the existing trade promotion procedures.

All the ALALC countries have taken steps to promote exports, especially exports of non-traditional manufactures. A number of different mechanisms have been used, ranging from tariff rebates such as draw-backs, the temporary admission of inputs, and the refund of charges on export production, to the extension of credit for production and other types of financial support which facilitate credit sales, and sometimes insurance coverage for export credits against commercial, political and unusual risks.

<sup>4/</sup> A draft of this code is in preparation.

<sup>5/</sup> See Conference resolutions 245 (IX) and 274 (X).

### /2. Agreements

2. Agreements between central banks and other financial matters

The most important financial instrument that ALALC has is the reciprocal payments and credits agreement signed in 1965. This agreement provides machinery for multilateral co-operation through a network of bilateral agreements between the central banks of the Contracting Parties, whereby reciprocal credits for agreed sums are provided according to payments needs. This has made the bilateral agreements more multilateral in character and ensured speed and security in payments, and it has also made it possible to set off the debit and credit balances against each other. The time limit for clearing the balances has been extended from two to three months, thereby making clearing operations less frequent and reducing the debit balances payable over the year. In addition, interest is payable on debit balances, and this has undoubtedly encouraged the granting of credit.

The central banks have been making increasing use of the system. The number of reciprocal credit agreements, for a total of 24.6 million dollars, signed by the ALALC central banks rose from sixteen towards the end of 1967 to thirty-seven by the end of 1970, when they covered a total of 120.1 million dollars. It should be noted that the central banks of Brazil and Uruguay have now joined the system, so that all the ALALC countries are now participants.

According to the technical experts, the improvement in the payments system has brought about favourable conditions for establishing links with the Central American countries and a policy decision is now all that is needed. The central banks of the ALALC countries have already agreed to the idea.

On 26 September 1970 an important financial step was taken: in Santo Domingo a multilateral agreement was signed between the central banks to alleviate temporary losses of liquidity. This was the first step taken in the Area towards the establishment of a multilateral system enabling the central banks to finance not only increased deficit - as in the past - but also decreases in surpluses. This agreement, which has already

/come into

come into force,<sup>6/</sup> has established efficient financial machinery for stabilizing the balance of payments, using Area funds and authorizing credit for a period not exceeding eighteen months.

The difference between this system and the multilateral payments and credit system described above, lies in the fact that, in the former, credit is a by-product of the machinery used for settlement, while in the system set up by the Santo Domingo Agreement, credit is the main objective, and repayment periods are much longer.

In the financial field considerations is also being given to the project known as Scheme III, which proposes multilateral machinery for financing balance-of-payments deficits.

Lastly, it should be noted that measures are being taken in the Area to establish a market in banker's acceptances which is one of the most effective credit instruments for the financing of intra-Area trade. The acceptances would be issued on the basis of credit documents and would be repayable through the reciprocal credit agreements, so that they would be backed by the commercial and central banks involved in the operation. The central banks of member-countries, commercial banks and private investors who now prefer to have their assets in foreign currency and invest their capital abroad would be the potential buyers of these documents. In general terms this all shows that ALALC has made satisfactory progress in the financial field.

### 3. ALALC transport activities

#### Current situation

Priority A has been assigned to every project in the chapter on transport in the Plan of Action for 1970-1980, which means that work on these projects must be completed by 31 December 1973 at the latest. However the studies have been outlined only in a very general way, except for those on the special problems of the land-locked countries,

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<sup>6/</sup> The ALALC Monetary Policy Council has approved the draft regulation for the application of the Santo Domingo Agreement.

/which have

which have been given special attention. The bigger problems, such as the enforcement of the ALALC Water Transport Convention and the International Road Transport Agreement, are still pending.

The Convention has been ratified by only three countries, and two more ratifications are needed before it can come into force. The regulations for the application of the Convention were approved by six countries, but as two of the countries withdrew from the conference of signatory powers, they could not be officially adopted.

The International Road Transport Agreement, which was submitted to the Advisory Committee on Transport in August 1968, follows the general lines of the tripartite agreement between Argentina, Brazil and Uruguay, but it contains provisions aimed at the defining the responsibilities of carriers and users establishing a legally valid bill of lading, and ensuring that the rates are published in documents to which users have free access.

When the draft was submitted to the Contracting Parties, one country suggested that the terms of the agreement should be extended to include rail transport and an exact definition of this proposal is now awaited.

#### 4. Agricultural sector: current situation and prospects

The short- and medium-term policies of the ALALC countries seem to be aimed more at intra-regional trade than at harmonizing their agricultural policy instruments.

The countries are particularly interested in increasing agricultural exports to third countries and in promoting research and practical work on the possibility of replacing agricultural commodities now imported from outside the area.

However, any increase in exports is bound up with the solution of the labour, social, and other problems, which now beset the productive sectors of the ALALC countries and are obstacles to their competitiveness. The principal means of achieving this increase has been seen as a complementary scheme that would take advantage of the Area's ecological, climatic, and seasonal conditions. Another idea that has gained ground

/is that

is that trade in agricultural commodities might be increased through agreements covering shortages in domestic production, particularly through State marketing agencies, and with a system of seasonal concessions.

In general the countries are willing to discuss and gradually adopt complementarity agreements on agricultural trade, but they have not shown any interest in defining possible fields for joint action, based on national agricultural development programmes.

Until regional integration is envisaged in the national agricultural development plans of all the ALALC countries, any efforts made by the Association will be in vain. However, the idea of adopting an approach which would involve the study of the problems connected with individual commodities or groups of commodities would seem to point up the need for joint action, especially since there is a clear trend towards individualism or self-sufficiency in agricultural production which leaves out of account the conditions on the regional and international markets.

5. Industrial sector: current situation and prospects for action

Until the Conference in Caracas, at which an appraisal was made of the integration process and the Plan of Action and its priorities adopted,<sup>7/</sup> ALALC industrial matters were governed by resolution 100 (IV), adopted in December 1964. This resolution established a set of basic directives on economic policy, which were very ambitious with regard to industry, and a programme of action based on the work of the Advisory Committee on Industrial Development and of working groups which were to propose specific formulas for integration in the different sectors (iron and steel, petrochemicals, paper and pulp, and chemicals).

Between 1964 and 1967 these groups did not achieve very much, since practically all they did was to produce technical reports. Then, from 1968 onwards, the ALALC secretariat carried out studies on various sectors, but it has not yet got round to textile machinery, chemical fibres and

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<sup>7/</sup> Standing Executive Committee, resolution 262 (IX) and 206.

/aluminium production.

aluminium production. Nearly all this research, which involved considerable effort, was wasted, because it was not properly used subsequently. For example, in 1969, when the Plan of Action for 1970-1980 was under discussion, it was stated that the more developed countries were reluctant to accept more than a few limited industrial commitments.

Resolution 262 (IX) covered three points relating to industry: studies on which an industrial development policy could be based; formulation of bases for the harmonization of the countries' legislation on the ownership of industrial property and multinational enterprises; and consideration of technological progress and the transfer of foreign know-how.

In the field of industrial development policy, the priorities established in June 1970 for the implementation of the Plan of Action include the collection of up-to-date information to identify the most important sectors in the Area, the preparation of systematic studies on those sectors, preparation of reports by the countries on their industrial development policy, studies on Area problems, and the formulation of the basic principles for an Area industrial development policy..

As can be seen, when the collective negotiations begin in 1974 to decide whether or not the Treaty is to be adapted to a new phase of economic integration, ALALC will only just be taking the first steps towards establishing the bases for an industrial development policy. This will mean that progress towards integration will be slow, but it may be possible to find a short cut to industrial integration through the new approach because this approach is more in line with the thinking of the countries with more diversified economies.

#### 6. Taxation and fiscal matters

In order to encourage a more uniform approach to tax legislation and to strengthen some of the instruments for tax administration, meetings were held in tax policy and internal taxation at which standardization of tax legislation was discussed, together with taxes on goods and services, income tax, the treatment of foreign investment, double taxation and training in tax collection. The work to be done in this vast and complex field will undoubtedly be a continuing task for ALALC and will open way for harmonization of national taxation systems.

/III. THE

### III. THE CONTRACTING PARTIES AND THE OPERATION OF ALALC

As previously stated, there are differing opinions among the member countries as to the operation and future policy of ALALC. The Andean Group established by the Cartagena Agreement has sprung up beside it, and no norms have been established linking the two organizations.

The lack of specific guidelines for the future operation of this system with two separate centres of gravity, and the practical difficulties involved in carrying out the programme for trade liberalization, led the Contracting Parties to adopt the Caracas Protocol <sup>8/</sup> - extending the transitional period - during which the free trade area was originally to have been brought into full operation - and giving them time to settle their differences.

The Plan of Action for 1970-1980, adopted at the same time as the Caracas Protocol, reflects an uneasy agreement on rather vague positions, and the order of priorities for the first stage (1970-1973) implies the postponement of decisions which the Contracting Parties must take if they are not to betray the basic aims to which they committed themselves in signing the Montevideo Treaty.

Since the Caracas Conference, ALALC has been taking the preparatory steps for amending the whole Treaty, and this may have beneficial results. The key problem of the integration movement based on the Montevideo Treaty is neither operational, nor technical nor economic; it is a political problem. It may be that the negotiations on the methods to be employed to achieve tariff reductions a harmonization of policies will lead the countries to explore new and promising ideas for action and to modify the system, a step which was to be expected when the organization came into operation. These are by no means disrupting factors, especially if it is borne in mind that the ALALC countries share the firm political will to make a success of their joint endeavour.

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<sup>8/</sup> To date, the Caracas Protocol has been ratified by the Government of Argentina, Bolivia, Brazil and Paraguay, which have deposited their instruments of ratification; the Governments of Mexico and Venezuela have also ratified the Protocol but have not yet deposited their instruments of ratification.

