



UNITED NATIONS

ECONOMIC  
AND  
SOCIAL COUNCIL



C.1

GENERAL

E/CN.12/774

8 April 1967

ENGLISH

ORIGINAL: SPANISH

ECONOMIC COMMISSION FOR LATIN AMERICA

Twelfth session

Caracas, Venezuela, 2-13 May 1967

THE ECONOMICALLY RELATIVELY LESS DEVELOPED COUNTRIES  
AND LATIN AMERICAN INTEGRATION \*

\* Unrevised translation.



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/I. INTRODUCTION:



## I. INTRODUCTION: AIMS AND SCOPE OF THE DOCUMENT

This preliminary study has been prepared in compliance with resolution 254 (XI), adopted at the eleventh session of ECLA held in Mexico in May 1965. The text of the Resolution is the following:

"The Economic Commission for Latin America,

"Considering that Latin American economic integration can only be achieved through fair sharing of the development opportunities created by a larger market;

"Considering that to that end it is necessary to define adequately the position of the relatively less developed countries and to ensure their effective participation in the industrial development of the region,

1. Decides to include, as part of its regular programme of work, continuing activities for the purpose of analysing and formulating solutions to the problems encountered by the relatively less developed countries in the process of Latin American economic integration, in order to lessen the differences in levels of development between them and the other countries of the region;

2. Requests the secretariat:

(a) To prepare, on the basis of the work already done and any that may be undertaken for the purpose, a preliminary study on these problems, to be submitted to Governments during the first half of 1966;

(b) To continue giving special attention in this study to identifying industries of regional importance and to existing problems of trade policy, intra-regional trade, transport and communications and to submit specific proposals on the machinery and procedures that might be established within the Commission for the purpose of organizing and carrying on the activities provided for in paragraph 1 above;

(c) To convene in due course a meeting of high-level government representatives of the relatively less developed countries for the purpose of evaluating the results of the study and taking decisions on the proposals made, and to submit the relevant reports to the Commission at its twelfth session."

/In accordance

In accordance with the provisions of this resolution, the present document will be presented to a meeting of government representatives of the relatively less developed countries which the Secretariat of ECLA will convene for the purpose of evaluating the results of the study and deciding on the proposals contained in it. While the resolution called for presentation of the document to the respective governments during the first semester of 1966, various difficulties prevented its completion by the time foreseen.

As requested in the resolution, the document is a preliminary study of the problems that arise for the relatively less developed countries of Latin America in the process of regional economic integration, containing proposals for various measures and operating mechanisms for the solution of such problems. In the course of this work special attention has been given to the points covered by paragraph 2 b) of the resolution, within the general aims of: promoting an equitable distribution of development opportunities deriving from the expanded market; and ensuring or stimulating the effective use of these opportunities by the relatively less developed countries, in order that they may share in the industrial development of the region and bring about a narrowing of the gap between their economic development level and that of the other countries of the area.

The analysis made in the study of the problems of the relatively less developed countries is necessarily confined to those problems which are common to all or to most of these countries; likewise the procedures suggested and the criteria established for carrying them out are presented as applicable in general rather than in specific cases. Consequently, with the exception of material presented for purposes of illustration, the present study does not attempt to identify or analyze the specific problems characteristic of individual countries, the special measures each should apply, their infrastructural requirements, nor particular country interests in regional-scale industries and concrete multinational projects that might be established. In order to enter into specific cases, it would be necessary first to carry out a study and analyze the special characteristics of the country in question, covering such aspects

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as its geographic location, availability of natural, human and capital resources, the structure and level of its economy, its infrastructure and the integration of its transport and communications system with those of the rest of the area, its trade policy, trade with other countries of the region, and its general economic policy. Moreover it would be necessary to carry out studies of the regional market and possibilities for sectoral industrial agreements, and to determine, on the basis of such studies and other considerations, the specific ways in which the country might take advantage of the opportunities offered by the expanded market and participate in border area integration programmes or multi-purpose regional projects. In this way, it would be possible to determine for each country its concrete needs and the nature and aims of its participation in programmes of external technical and financial co-operation.

This would be a long term task, the comprehensive fulfillment of which would definitely require the preparation of a complete development programme for the country, within the broad context of the integration effort. While substantial progress has been made in this task in at least some countries and very valuable data and background material are available in various studies already completed or in progress,<sup>1/</sup> there is still a lack

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<sup>1/</sup> Examples are: Reports were prepared on Paraguay and Ecuador by the ECLA/IDB/LAFTA advisory groups set up under resolution 50 of the Permanent Executive Committee of the LAFTA for the purpose of examining means for ensuring the active and prompt participation of the economically relatively less developed countries in the industrial integration process of the Zone and of identifying zonal market industries that might be located within such countries. With the assistance of an advisory mission of the Latin American Institute for Economic and Social Planning, the Technical Planning Secretariat of the Presidency in Paraguay prepared a document on the preliminary bases of a development strategy for Paraguay (Bases preliminares de una estrategia de desarrollo para el Paraguay). The study not only suggests certain lines of action the country could follow with a view toward regional integration but also various basic infrastructural works that are required, and points to the need for a great export-oriented stimulus to exploration of the country's natural resources, (continues)

/of sufficiently

of sufficiently systematic, broad and profound studies of industrial development the problems and possibilities of each one of the relatively less developed countries within the framework of the integration process and of the concrete measures and mechanisms that should be applied at the regional level in order to solve those problems and promote development.

For the precise purpose of filling this gap in the measure possible, and in conformity with paragraphs 1 and 2 b) of resolution 254, the present study includes specific proposals on the machinery and procedures that might be established within the Commission for the purpose of organizing and carrying on a permanent programme designed to analyze and present solutions for the problems of the relatively less developed countries in the process of Latin American economic integration. These proposals refer mainly to the broadening, deepening and systematization of the technical assistance which, in co-operation with other organisms, this secretariat has been giving to various relatively less developed countries in connection with the integration process, as well as to certain studies that should be carried out in order to clarify better the problems which this process presents for those countries and arrive at the formulation of more concrete propositions.

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1/ (Cont.)

the establishment of various new industries and the substantial expansion and modernization of existing ones. A number of other studies and advisory missions have been carried out in Paraguay, Ecuador, Central America and other relatively less developed countries on the subjects of development planning, industrial and agricultural productivity, public services, pre-investment projects, etc. The United Nations, the FAO, the ILO and its other specialized agencies as well as other organisms have participated in this work which includes, among others, the efforts of the technical assistance programmes now included in the United Nations Development Programme and the sectoral studies, of both a regional and a national nature, which ECLA and ALALC have carried out. (See chapters on infrastructure and industrial integration presented later.)

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Likewise, with respect to the instruments and measures proposed in this study, effort is directed rather toward pointing out their nature, the role they would fill and the criteria or general modes of their application and the purpose is not to enter into a detailed description of the mechanisms, its functioning and the ways in which it would be applied in each specific case. This orientation is due not only to the fact that the subject has to do with topics which lie within the competence of specialized agencies, such as, for example, the IDB in the field of financial assistance and the ILO in that of training of entrepreneurs and manpower, but also to the fact these elements depend on the special characteristics of each country.

Nevertheless, on other topics, such as trade policy, it has been possible to go more into detail, examining various alternatives and formulating specific and detailed proposals. For some types of instruments and measures, examples will be given of various projects, proposals and methods of application. Likewise reference will be made, in the case of some countries, to infrastructural and industrial projects which have been identified as feasible within the framework of the regional market or of sectorial agreements for industrial integration.

Finally it should be pointed out that the present study has been prepared from the standpoint of a Latin American common market, although, in the absence of a broad agreement on this market, the analysis will deal rather with the position of the less developed countries in relation to the LAFTA. It is there where the problems deriving from the diverse development levels of the member countries are more immediate and more pronounced and where they have, from the beginning, been a major preoccupation, leading to a series of measures in favour of the relatively less developed countries, the nature, scope and limitations of which will be examined in this report. However, these measures would be applicable to a Latin American common market of broader scope and geographical extension than that existing under the present agreements.

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On the other hand, following the orientation of resolution 254, the problem of the relatively less developed countries is approached mainly from the viewpoint of their industrial development and infrastructural needs. This does not mean that the vital importance of the other sectors, particularly the agricultural, is not appreciated; on the contrary it is assumed that it would be necessary simultaneously to take measures to promote its development as well, following the outline of a general development policy.

## II. THE PROBLEMS OF THE ECONOMICALLY RELATIVELY LESS DEVELOPED COUNTRIES AND INTEGRATION POLICY

### 1. Origin and nature of the problems

One of the main problems posed by the Latin American integration process is the possibility that this might not benefit fairly all member countries and that it might even adversely affect the economic development of some countries.

The problem arises mainly from the great differences that exist in the structures and levels of economic development achieved by the Latin American countries and, therefore, from their ability to obtain real benefits from the opportunities offered by the expanded market. This situation has particular meaning for the economically relatively less developed countries. Owing to the shortage of technical and financial resources, insufficiency, or insufficient development of, the infrastructure and the basic industrial structure, lack of entrepreneurial ability and of qualified manpower, and general limitations of available resources and capacity to mobilize them, these countries have less economic potential. They are thus not in a position to take advantage of access to the markets of the other countries of the area offered by removal or lowering of import charges and to share effectively in the regional industrialization process

/being wrought

being wrought by integration.<sup>1/</sup> Moreover this lower level of development and the relative narrowness of their markets means that these countries normally cannot offer investors incentives that they find in other more developed nations in the form of economies of scale and of external economies resulting from such factors as broader consumer markets, greater availability of qualified manpower, credit facilities and more developed money markets, better supply of inputs and more adequate infrastructure and distribution services.

These factors have a decisive influence on the distribution and location of industries, except when these are closely linked to natural resources that could not be transported or transport of which would be too costly. Therefore in a régime of free trade and free play of market forces, industries tend to become established in economically more developed countries and, within these, to be concentrated in certain zones. When this phenomenon is permitted to occur within a country, it results in unequal development among different regions - sometimes to a considerable extent.

When intra-zonal trade is freed and markets are fused in an economic integration process, there exists the danger that the participation of all countries in this process on the same level, in conjunction with the determination of distribution and location of industries by free market forces, might cause serious disparities in the benefits that each country may acquire from the process, to the detriment of those of lesser economic potential. The more industrialized countries would specialize increasingly in the production and export of manufactured goods and the less industrialized in that of primary goods, repeating in the Latin American scene the division of labour which has occurred and exists still at the global international level between industrialized countries on the one hand and the developing countries on the other, with the familiar prejudicial effects on the latter.

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<sup>1/</sup> Structural factors of a social or institutional nature may likewise account for some of the difficulties in adequately taking advantage of the opportunities offered by the expanded market. However in the present study consideration will be given only to problems deriving from differences in the structure of production, the relative level of development, and other factors of an economic nature.

Not only is there the danger that, under these conditions, the relative position of these countries might deteriorate - that is to say that differences in development levels which separate them from the other countries of the region might become more pronounced - but the result might be retrocession or stagnation, in absolute terms, of their economic growth. In other terms, the possibilities for economic growth might actually be more adversely affected by the integration of their markets with those of other more developed countries than by the present limitations resulting from the small size of their national markets. Thus there is the contradiction that the relatively less developed countries are at the same time those that have a greater need to broaden their markets through regional integration - which probably offers them the only real possibility they have for diversifying and amplifying their productive structures efficiently - and those that find greatest difficulty in effectively taking advantage of the expanded market and run more risks in the integration process.

These problems and dangers were pointed out from the beginning in the various studies and proposals made for the establishment of a common market between Latin American countries, in recognition that the progress of the less developed countries in the economic integration process cannot be left to the simple play of market forces operating in conjunction with a regional free trade régime, but rather that it is indispensable that measures be taken to ensure that these countries share equitably in the benefits of integration. The Montevideo Treaty likewise recognizes this, including in its preamble the need for achieving the economic development of countries within the expanded market "with norms which take due account of the interests of each and all and which make proper compensation, by means of appropriate measures, for the special situation of countries which are at a relatively less advanced stage of economic development".<sup>2/</sup> In Chapter VIII it is established that various measures may be taken in order

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<sup>2/</sup> Likewise, the signatory countries of the Rome Treaty expressed in its preamble the desire "to strengthen the unity of their economies and to ensure their harmonious development by reducing the differences existing between the various regions and by mitigating the backwardness of the less favoured".

to grant special advantages to the economically relatively less developed countries in order to create conditions favourable to the growth of their economies.<sup>3/</sup>

With respect to the Central American common market, as early as 1952 one of the first resolutions adopted by the Central American Economic Co-operation Committee expressed the decision that the problem of economic integration would be based on the broad application of the principle of reciprocity, taking into account the location of productive activities. Although the various treaties that make up the common market do not contain specific references to the relatively less developed countries (which is understandable in view of the relatively minor differences in levels of economic development of its members), the problem of equitable distribution of the benefits of integration and of balanced economic development is considered in the Agreement on the Régime for Central American Integration Industries and in the Agreement Establishing the Central American Bank for Economic Integration.<sup>4/</sup> As will be seen later, the problem of balanced development within the Central American common market was posed with renewed urgency at the ninth meeting of the Economic Co-operation Committee, held in January 1966, with particular regard to the need to grant Honduras preferential treatment in order to achieve more reasonable balance between her industrial development and that of the other Central American countries.

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<sup>3/</sup> Further on, reference is made to the ways in which these measures have been applied and to other decisions adopted in various resolutions by the members of the LAFTA relating to the equitable distribution of the benefits of integration and action in favour of the relatively less developed countries.

<sup>4/</sup> According to Article I of the first mentioned, "The Contracting States undertake to encourage and promote the establishment of new industries and the specialization and expansion of existing industries within the framework of Central American economic integration, and agree that the development of the various activities which are or may be included in such a programme shall be effected on a reciprocal and equitable basis in order that each and every Central American State may progressively derive economic advantages". Article 2 of the Agreement Establishing the Central American Bank for Economic Integration stipulates that "The purpose of the Bank shall be to promote the economic integration and balanced economic development of the member countries". The Agreement indicates in the following text the investment sectors to be given attention in fulfillment of this aim (infrastructural projects and those for long-term investments in regional industries, etc.). The Central American Bank becomes thus the main tool for correcting regional inequalities and for promotion of conditions of reciprocity and equity among the countries participating in the Central American common market.

2. The principle of reciprocity and balanced regional development

The relatively less developed countries face two types of problems which are closely tied up with each other. On the one hand, their lesser economic capacity makes them extremely vulnerable to competition from the more developed countries and, on the other, their lack of technical and financial resources and of adequate entrepreneurial capacity does not allow them to take advantage of the opportunities offered by the integration process and achieve an equitable share in its benefits.

This general problem leads to the so-called "principle of reciprocity", according to which the integration process should ensure to each and every one of the participating countries a fair share of the responsibilities and benefits. It has to do with a much broader interpretation than the merely commercial one which the Treaty of Montevideo gives to reciprocity. The latter makes reference to balance in trade, or in expectations of trade flows, between each contracting party and the rest as a result of concessions granted among them.<sup>5/</sup>

Nor can reciprocity be interpreted as equivalence between what each country grants and what it receives from the others, since that would imply a lack of equity when there is a pronounced difference in the basic conditions in which the economies of the various countries are developing.

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<sup>5/</sup> It should be pointed out that the terms "reciprocity" and "principle of reciprocity" continue to be used within the LAFTA within the scope and formulation that was established in articles 10 and 13 of the Montevideo Treaty; that is to say, such expressions are applied in the LAFTA to refer exclusively to reciprocity in negotiated concessions measured in terms of the development of intra-zonal trade in relation to the liberation process. When it is a matter of measures in favour of the relatively less developed countries, reference is made in the LAFTA to the provisions of Chapter VIII of the Treaty, as well as to the need to achieve "harmonious and balanced" development among the Contracting Parties. (This expression is also used in referring to the position of the countries "with insufficient market".) See Resolution 71 (III).

As has been recognized not only in relations between the Latin American countries in the process of integrating their economies, but likewise in relations between developing and developed countries, if what is sought is the reduction of disequilibria which separate these countries, there should be differential treatment to compensate such initially different positions. This treatment in favour of the economically less developed would constitute the real essence of the principle of reciprocity, and so it is conceived and formulated in the present document. Thus the concept which is being affirmed transcends the traditional principle and acquires the nature of community solidarity and responsibility which tends to concede to the relatively less developed countries various advantages so that these may achieve the greater economic dynamism which would be impossible without them. There is no objective and simple way to measure the advantages and benefits which a country obtains or may obtain through an integration agreement; but there are certain general criteria which may be applied in order to examine this aspect. On the abstract plane, the most appropriate would be to consider the effects of integration on the rhythm of economic growth and the productive structure of the participating countries. In concrete terms, it would be a matter of comparing, under given conditions, the rhythm of growth and the evolution of the productive structure of the countries which might be foreseen with the integration process and without it, in order to appreciate the absolute and dynamic effects of integration on the national development of each country.

An easier approach to attempting to appreciate the effects of integration on the rhythm of economic growth and the diversification of the economies of the participating countries is to relate the increase and the composition of the trade which results from integration to that which the countries might be able to achieve without integration. Of particularly great interest for this analysis is the determination of the net increase, since the advantages of integration depend on the creation of new trade flows being superior to the flows that are replaced. In these comparisons it will be necessary to take into account the possible deterioration in the terms of trade that may result from the displacement of trade through integration.

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Likewise the analysis of the composition of trade is important as an index of the transformations that are taking place in the productive structure of the participating countries. It is also necessary to have in mind that the favourable effects of integration may influence the increase and diversification of trade with third countries.

If a positive balance is yielded by evaluations of this type, then it would be justified to consider that the integration process is beneficial for a country; if the result should be positive for all participating countries, it could be concluded that the process had achieved the aim of contributing toward speeding up the economic development of the countries involved in it.

However this process should have also the aim of attenuating the differences in levels of development of these countries; that is to say it should be concerned with the rates of growth in the relatively less developed countries, granting them for this purpose special advantages in accordance with principles of collective responsibility and solidarity of the type that ought to orient community action.

In summary, it is necessary to adopt measures leading to the achievement by the relatively less developed countries, within the context of integration, of a growth rate that would not only be greater than that which they would have outside of this context, but also greater than that which other participating countries achieve in the process. This is necessary in order to reduce differences in development levels that separate the former from the latter, as set forth in resolution 254 (XI). It is not possible to ensure that these objectives will necessarily be fulfilled, since apart from the collective measures that may be adopted for this purpose, there are numerous other factors of an internal and external nature unrelated to integration measures which could influence the rhythm and structure of economic growth of a country. What is sought is the creation in the relatively less developed countries of the necessary conditions of change in their internal economic structure and in their foreign trade so that they may achieve an adequate and sustained rhythm of development, with the expectation that these conditions will be reinforced by a firm policy of national development.

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It has been pointed out that between countries of differing economic potential reciprocity cannot be based on equivalence of concessions or equality of treatment since it is not equitable to treat unequals as equals. Moreover such treatment in favour of the less developed countries is not in the interest only of these. Balanced development is essential for the success of the integration process and consequently there is common interest in attaining it. If this should not prove possible, the countries for whom this process would mean prejudicial effects or unequal benefits would feel obliged to adopt restrictive measures in order to protect their interests or at least to take a passive attitude, interrupting or even paralyzing the integration process. This would be injurious to the less developed countries, since they are the ones that most need the expanded market, and for the more developed as well, since integration offers them relatively short-term possibilities for fuller utilization of their productive capacity and for developing new industries for import substitution. It is possible that other countries or groups of countries within ALALC might not share fairly in the benefits of integration. This has been recognized by ALALC and resolution 71 (III) established in fact the category of countries qualified as those of "insufficient market" in whose interests it is necessary "to achieve balanced and harmonious development of the Zone" and adopt joint measures "which stimulate the location or expansion of specified productive activities for which the respective national market is too small or the development of which would be of interest to the zone".

### 3. Aims and strategy of integration policy

Integration policy should pursue the basic aim of helping to diversify and enervate the economies of the relatively less developed countries. This is precisely the function that integration has in the national development of all the participating countries. However, this goal of strengthening the productive capacity, diversifying the structure of production, and speeding up the rhythm of growth has even greater significance for the relatively less developed countries. In fact, integration policy cannot fail to take into account, through adequate strategy and measures in keeping with that strategy,

/the factors

the factors that are perpetuating the stagnation, and determining the conditions of incipient development, of such economies. Thus for the less developed countries integration policy must have special characteristics which distinguish it from the general policy to be applied more or less uniformly to the other participating countries in the area.

It may be said, in more concrete terms, that measures for promoting an integration process are aimed at expanding and diversifying trade of the participating countries, at least that with the area of integration, in such a way that the result may be a rapid increase in production, employment and income, generated by a new structure of production. At the same time, national development depends likewise on the removal of other limiting factor of an internal order, no less aggravating than those of external origin and the possibilities for getting the growth process underway depend on the efforts that the countries are disposed to make to mobilize their potential resources and carry out structural and institutional reforms of an economic and social nature. Integration is precisely the instrument that is indispensable for effectively taking advantage of resources available for investment and of changes which go along with development. This is so much the case that should integration not achieve sufficient expansion of trade and of productive capacity of the economies, the results that might reasonably be expected of such decisions of an internal order would be frustrated or at least considerably limited.

From these inter-relations, it is clear that integration policy must be formulated and carried out within the general framework of national development policy. Consequently in the case of the relatively less developed countries, integration policy must take into account not only the incipient stage of development, the shortage of resources, available for investment, the low average level of income, lack of knowledge about natural resources, and the absence of basic infrastructure and external economies that limit investments, but also the insufficiency of entrepreneurial initiative and the shortage of skilled labour and of technical training in general. Hence for the relatively less developed

/countries integration

countries integration policy has aims and functions which distinguish it from such policy in general. It has been pointed out earlier that trade policy measures which tend to liberalize trade, fiscal incentives and traditional tools of economic policy may in themselves be sufficient to bring about trade expansion and increased production when the process of integration takes place between relatively advanced countries but that the same measures may in the presence of heterogeneous development levels, turn out to be ineffectual or constitute weak stimuli, or even be prejudicial, if they are not complemented by other decisions leading to direct action or if they are applied in a certain way. Direct state action (whether on the part of the integration institutions or that of each country), the promotion of infrastructural works, the carrying out of regional programmes or multinational projects, and the adaptation of general measures to include preferential treatment that would take into account the position of the less developed countries, take on special importance in the definition of aims and strategy of integration policy. In this context, some of the essential aspects of the latter are:

(a) The regional market must be opened up more rapidly and more fully for the relatively less developed countries than for the others;

(b) The less developed countries must be conceded preferential and relatively more advantageous treatment in order to stimulate expansion of exports and protect both their traditional and their new economic activity, at the same time that a healthy policy is progressively establishing the conditions they require in order to face competition;

(c) Preferential technical and financial co-operation should be provided in such a way that these countries may acquire the infrastructure, entrepreneurial capacity and training of skilled labour that would increase their capacity to produce and to absorb investments;

(d) Direct action on the part of regional and international financial institutions is of primary importance for developing infrastructure for economic and physical integration of the less developed countries with the others of the region;

(e) A strategy of economic development in harmony with the integration process must be outlined for these countries, particularly with respect to agricultural and industrial activities, and

(f) Frontier and sub-regional development programmes which include zones in other countries and multinational projects (such as those for river basin development) are of great importance in the economic integration of these countries.

The size of the combined economies of the relatively less developed countries in the ALALC area, as well as those that are less developed in Latin America as a whole is very small, the gross product in the first case amounting to less than 3 per cent of that for the area and in the latter case to less than 10 per cent of that for Latin America as a whole. From this and other conditions that characterize present incipient development of the countries the following conclusions may be reached in relation to the integration process:

1. Prompt action by the other countries to open up a broader market for the less developed will not in general give rise to balance of payments problems nor affect employment and production levels of the former, but there is no doubt that such action on the part of the less developed countries would have very prejudicial consequences for their economies and for the integration process. Admittedly the problems mentioned could arise for the relatively more advanced countries in connexion with certain specific products or activities, although since they would concern individual cases, they could be studied and solved adequately.

2. An increase in imports of the more advanced countries that would be relatively small in relation to their production and consumption levels, would represent a relatively strong stimulus for the less developed.

3. It is not necessary to wait for the definition of a regional investment policy for the whole area, or the subsequent progress of the integration process, in order to adopt preferential measures in favour of the relatively less developed countries.

The immediate effect that integration should have on the creation of basic conditions that may contribute toward ensuring lasting development of the economies of these countries leads to an exposition of a strategy

/for development

for development of productive activities in relation to the integration process. On the basic assumption that these countries must be able to count on broad access to the regional market at an early date, the question arises as to what is the basic orientation that should prevail in national and regional policy for channeling investments into infrastructure and production with a view to the expanded market. There is no doubt that one of the most urgent tasks is the identification of regional scale industries that lend themselves to establishment in those countries. In this connexion sectorial agreements should envisage reasonably favourable treatment for the relatively less developed countries. The conclusion of such agreements in the field of basic industrial activities is an effective means of carrying out a regional industrial investment policy that adequately takes into account the fair participation of all countries in the advantages of integration and balanced regional development.

This identification of industries should be carried out in a broader context; it appears advisable to programme a group of projects of strategic importance, directly linked with the integration process that would permit the relatively less developed countries to take advantage of the expanded market. This group of activities should be closely related to each other and include infrastructural projects, those for industries and likewise for agricultural and mining activities closely connected with the former. That is to say, there should be a tendency to develop or locate in those countries a conglomeration of activities that are structurally inter-dependent from the economic and technological viewpoint, that may have the greatest possible effect on their respective economies through utilization of national inputs, employment and the magnitude of value added. Although a part of the production of these activities would satisfy internal demand, it is clear that exports would become a basic dynamic factor and frequently the indispensable element for confirming the viability of establishing the activities in those countries under reasonably economic conditions. It is quite probable that in some sectors, it could be technically and economically possible to encourage the establishment of certain basic industries, even some that would operate on a regional scale, without compromising principles of economy that would prevail in a regional investment policy.

/In summary,

In summary, it is necessary to develop and install in these countries real conglomerations of economic activities, either for the regional or a sub-regional market, the effects of which might be diffused throughout the rest of the national economy. For this purpose a group of inter-dependent projects would be programmed, ranging from local and regional infrastructural works to investments in production. In this way it would be possible to realise external economies that would ensure the growth of the nucleus activities and the attraction of new ones. The satisfactory solution of the complex problem of the development of these countries will frequently not be found through certain isolated projects which, even though they might be of relatively broad scope, would remain as enclaves, without having any substantial repercussions on the national economy. Moreover it would appear desirable to determine priorities for infrastructural projects that would be in keeping with this programme in order to avoid undue dispersion of investments, above all in the early stages, and to facilitate the best possible use of available resources in the face of the relatively great demands that will be made on them for the execution of the programme.

The nature and extent of the conglomeration of projects will vary from one less developed country to another, according to conditions prevailing in each, the size of the market, geographic location, natural resource endowment and other factors. Hence the need to prepare country programmes within the framework of the general orientation of their respective development policies. In this respect, it would be advisable to consider the Central American Common Market as a unit, but without losing sight of the special position of each of its members.

Programmes for integral development of frontier zones, for sub-regions that cover more than one country and multinational infrastructural and hydrographic basin development projects are of primary importance for the relatively less developed countries. The IDB has been giving special attention to promoting studies and projects of this kind in different countries and regions of Latin America. It recently started carrying out, with the collaboration of the United Nations Special Fund and other bodies, studies on the extensive project for the development of the River Plate Basin.

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When the spatial economic structure of the region is examined, its relatively developed zones appear like islands that have no connexions among them. They lie scattered to the borders of the continent, looking toward the rest of the world with historic-economic determinism, while among them and toward the interior there extend backward and less developed areas. The conclusion is reached that the formation of a truly common market that would bring with it Latin American development and integration depends on the dexterity and precision with which the concrete regional programming of these areas is carried out. Proposals for this have not yet been formulated in Latin America and consideration of the problems of the less developed countries makes evident the urgency of getting down to the task.

#### 4. Instruments for action

Measures examined in this report for implementing integration policies relating to the relatively less developed countries are mainly those of trade policy, financial aid, technical assistance and fiscal incentives.

Those pertaining to trade policy have two principal goals: to enable the less developed countries to gain broader access to the markets of the other countries as soon as possible and to allow them to take more time than the other countries in carrying out their programmes for eliminating customs duties and other trade restrictions and for fixing margins of preference.

The immediate broadening of the market could cover all products of the relatively less developed countries, with certain specific exceptions, or groups of products of special interest to them. Measures for broadening the market should be formulated in such a way that they constitute an effective stimulus for investment in new industries or in the expansion and modernization of those already established. Within the framework of a policy of this kind, sectoral agreements can be a means of permitting greater progress in broadening the market for specific products or regional scale industries on which there is agreement that they should be located or stimulated in the less developed countries; it would be understood that regional investment policy or the negotiation of such agreements would have to envisage preferential treatment for these countries.

/Measures that

Measures that establish longer terms for trade liberalization of the less developed countries could be complemented with special safeguard clauses that avoid prejudice to economic activity or facilitate processes of readjustment or modernization.

It has been pointed out repeatedly that external financial co-operation is an indispensable factor for accelerating the economic integration process leading to the establishment of a Latin American common market. This co-operation is even more necessary for facilitating the incorporation of the less developed countries in the integration process. Hence preferential treatment for these countries must be foreseen with respect to the relative amount, costs and conditions of such assistance.

Financial assistance to the less developed countries would have the various objectives envisaged for the different aspects of the integration process and should be given in addition to the relatively more favourable treatment that these countries would have for creating the basic conditions and indispensable structural changes required for speeding up their development. The most important specific goals of financial assistance in relation to the integration process of these countries will be examined subsequently in this document.

The technical assistance that should be given to the relatively less developed countries is particularly important. The international and regional institutions, the integration agencies, the industrialized countries, and the more developed countries of Latin America should join forces to provide adequate technical assistance to the less developed countries. This assistance would have to be systematically co-ordinated in accordance with the aims of development policy and with integration needs. For this purpose, there is an urgent need to evaluate all aspects of the technical assistance that these countries are receiving in order to determine changes that would have to be made if its efficiency is to be increased. Among the different goals of technical assistance, the following are particularly noteworthy: studies for identifying industries that would be established in these countries; preparation and execution of industrial and infrastructural projects; establishment, organization and modernization of firms; advisory services in marketing, market research and export promotion; and training of entrepreneurs and workers.

/Fiscal incentives

Fiscal incentives constitute another important type of tool for stimulating investments. There is no doubt that the formation of the common market requires the gradual harmonization of the incentives to industry and investments in general agreed upon by the countries. This would of course include the treatment of foreign investments. Within this process of gradual harmonization, the adoption of special fiscal incentives by the relatively less developed countries should be permitted so that it may coadunate with the other measures for stimulating the location of economic activity within their borders. These incentives consist basically of tax exemptions for persons, firms, capital goods and other production goods, as well as various types of subsidies to economic activity and different incentives to exports.

Sectoral agreements, particularly for basic industries, programmes for frontier development and those for regional development that may cover areas of more advanced countries, multinational projects for improving infrastructure or taking advantage of river basins and the organization of multinational firms constitute other forms of direct action by the integration agencies and national governments that may be very effective for the development of these countries. Hence the importance of examining instruments for putting such measures into practice.

It should be noted that these instruments and measures being proposed should be articulated in a coherent way in the formulation of an overall integration policy. If they are applied in isolation from one another they will result inoperative or not very effective, as experience in the AIALC bears out. Thus access to the markets of the other countries means very little when the country does not have the technical and financial means for promoting investments. Likewise, technical and financial aid will not be efficient if it is not possible to count on the expanded market for the products of the industries that are set up, or on adequate infrastructure. At the same time, substantial improvement of the infrastructure will not be enough to attract an adequate flow of investments.

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On the other hand, these instruments will not be sufficiently efficacious if they are not accompanied by internal measures which the countries themselves must take. This is true, for example, in the fields of export promotion, fiscal and monetary policy, and, particularly, in relation to the elimination of structural factors that limit development possibilities. Consequently there should be convergent action between regional and international action and national policy.

It should also be pointed out that most of the instruments proposed are not new; on the contrary they are in the main obvious and have been proposed or suggested on various occasions in the ALALC and the Central American Common Market. However their application has until now been quite limited, partial and unco-ordinated. The problem is not to be found so much in the definition or identification of the instruments in themselves, but rather in the strategy for applying them systematically within a national programme that embodies the goals and aims of an integration policy.

III. MEASURES OF INTEGRATION POLICY IN FAVOUR OF  
THE COUNTRIES AT A RELATIVELY LESS ADVANCED  
STAGE OF ECONOMIC DEVELOPMENT

1. Trade policy measures

The trade policy measures in favour of the countries at a relatively less advanced stage of economic development, relate basically to two fields: the liberalization of intraregional trade, and the harmonization of duties and other restrictions on imports from the rest of the world leading finally to the adoption of a common external tariff and a common trade policy in relation to third countries.

The liberalization of intraregional trade entails the opening of the regional market to the products of the relatively less developed countries and the opening of the markets of these countries to the products of the other countries taking part in the integration process.

(a) Access to the regional market for the countries at a relatively less advanced stage of economic development

Of all the trade measures which can be adopted in favour of the countries at a relatively less advanced stage of economic development, those of most importance for promoting their industrial development are undoubtedly those which relate to the opening of the regional market in favour of these countries.

Free access to the regional market is not only an immense stimulus to investment and to the expansion of existing industries, the establishment of new, and the modernization of enterprises but a necessary, though not sufficient condition for effective promotion of any of these.

When the free-trade system between the Latin American countries has been completed all the countries taking part will have free access to the regional market for all their products or, under the Montevideo Treaty, which envisages a transition period of not longer than 12 years, for the products which form the essential basis of trade and any others which may be included in the liberalization programme. But whatever the liberalization system adopted, some provision should be made for

/preferential treatment

preferential treatment in favour of the relatively less developed countries. These should be granted special facilities of access to the regional market both as regards the time at which they gain free access - through earlier or accelerated liberalization in their favour - and as regards conditions such as the scope of the concessions made to them, their stability and the preference margins.

The Montevideo Treaty does in fact establish such preferential treatment, since its article 32 provides that "a Contracting Party (may) grant to another Contracting Party which is at a relatively less advanced stage of economic development.....advantages not extended to the other Contracting Parties, in order to encourage the introduction or expansion of specific productive activities". And the countries recognized as of relatively less advanced economic development within ALALC - Paraguay and Ecuador - have in fact received many preferential concessions from the other member countries.<sup>1/</sup> Nevertheless, the great majority of these concessions suffer from well-known defects, analogous to those which almost invariably appear in concessions granted as a part of a mechanism of selective trade liberalization, which severely limit their scope and have made them largely inoperative, as appears from the fact that they have not effectively helped encourage the establishment or expansion of industries in these countries. These shortcomings have been fully recognized almost since the beginning of the ALALC, but except in a few cases no real improvement has been made in the conditions of access to the regional market for products of industries established or to be established in the countries at a relatively less advanced stage of economic development.<sup>2/</sup>

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<sup>1/</sup> Many resolutions have been adopted in ALALC which provide for the making of studies or the establishment of additional rules and undertakings for the application of the special treatment authorized in article 32, viz., resolutions 17 (I), 62 (II), 74 (III) and 157 (VI).

<sup>2/</sup> See section I, chapter VI of this document.

Other factors which have been decisive in preventing these concessions from having positive results will be considered below. It should be mentioned here, however, that at the technical level this inefficacy of trade policy measures results not so much from the nature and scope of the standing rules and provisions as from the actual liberalization mechanism applied in ALALC and from the fundamental fact that the granting and implementation of these exclusive concessions is placed largely in the hands of the countries taking part in each of the periodical negotiations. This is obvious from the very limited application of resolution 74 (III) - adopted at the end of 1964 - on an anticipatory liberalization régime designed to encourage the installation in the relatively less developed countries of industries producing products mainly for export to the regional market whose establishment in these countries is identified as desirable and viable and to ensure a proper return on their operations. Similarly, the basic guidelines in connexion with the opening of markets to the products of those countries established in resolution 157 (VI), which was adopted in the latest negotiations at the end of 1966, were not applied in those negotiations. It is, therefore, vital that the procedures followed in ALALC should be changed by introducing an operative mechanism for ensuring that the rules and undertakings already adopted in the Association and others which ought to be adopted established in connexion with exclusive concessions, really are observed.

To this end it is considered that the preferential concessions should not be granted in partial, selective, product by product negotiations but in prior undertakings which are automatically applicable and do not require further negotiation.<sup>3/</sup>

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<sup>3/</sup> Most of the proposals in connexion with special market access facilities for relatively less developed countries made in this report have been mentioned in earlier ECLA documents, in particular in A Contribution to Economic Integration Policy in Latin America (E/CN.12/728) and Aspectos fundamentales de la política de integración económica de América Latina (ST/ECLA/Conf.21/L.3); they are also envisaged in several ALALC resolutions (particularly 157 (VI)) and in proposals made on a number of occasions in that organization, especially in the proposal recently made by the Working Party on studies in aid of the countries at a less advanced stage of economic development (for this, see CEP/Repertorio 719).

The existence of properly defined prior undertakings and of a mechanism through which these can be automatically implemented would guarantee for the relatively less developed countries and for potential investors a full access to the regional market and would thus constitute effective incentives to investment in those countries.

The basic aspects of the system would be as follows:

(i) Immediate opening - or in very short terms - of the markets of the other member countries through total elimination of duties and restrictions, including administrative and exchange restrictions, for all industrial products (processed or semi-processed) made in the relatively less developed countries except those specific products for which this total and immediate opening might cause substantial damage to important industries established in the countries granting these concessions. These exceptions would be negotiated between the countries concerned on the establishment of the general free access régime and could take the form either of duty-free import quotas for the products excepted from the general régime which would increase annually by determined amounts, or of an automatic gradual elimination of the customs duties and other restrictions on imports of these products, to be completed within a relatively short term. Special concessions in terms of quotas or accelerated reduction of duties and other barriers would also be negotiated for unprocessed primary commodities. At the same time escape or safeguard

/clauses - which

clauses - which will be considered below - might be negotiated, constituting either supplements or alternatives to the exceptions for specific products.<sup>4/</sup>

(ii) If an automatic general régime for liberalization and for elimination of restrictions not equivalent to customs duties is accepted in ALALC or in a treaty for establishing the Latin American common market, this should provide for the total elimination, as quickly as possible, of the duties and restrictions, including administrative and exchange restrictions, which affect imports of products deriving from the relatively less developed countries, as has already been laid down in resolution 170 (CM-I/III-E) adopted by the ALALC Council of Ministers in December 1966, by which the Contracting Parties of the Montevideo Treaty undertook to establish a régime of programmed liberalization.

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<sup>4/</sup> It has been proposed on several occasions that the system of opening markets in favour of the relatively less developed countries should not be general but should be confined to products of specific industries which are shown by feasibility studies to be suitable for establishment in those countries or which are identified by some other adopted procedure. This type of measure has already in a fashion been envisaged in ALALC in resolution 74 (II) and also in Conclusiones del Grupo de Estudio para Países de Menor Desarrollo Económico Relativo, (Doc. ALALC/C.VI/dc.20, October 1966) submitted by the Standing Executive Committee (CEP) to the Conference of the Contracting Parties in the last sessions. Moreover, resolution 157 (VI), approved in the same sessions, states as one of the basic guidelines for the Association's policy respecting the countries at a relatively less advanced stage of economic development that the exclusive concessions granted to them should cover a whole sector or branch of production. There are, however, two important considerations which make the broader proposal given here - for a general opening of the regional market to the industrial products of the relatively less developed countries - preferable: (a) a selective opening, even if it comprised all the products of a sector or branch of production or of previously identified industries, would always have the effect of limiting or destroying the chances of encouraging the development of certain industries which might potentially be installed or expanded to produce for the regional market but for one reason or another have not been taken into account, (b) in fact only a few industries would take any real advantage of the opening of the regional market to all, since, for the others, there are number of factors which tend to ensure that economic activity will continue to be located in the other countries, notwithstanding the elimination of duties and restrictions.

/It is

It is proposed in this connexion that in formulating this régime total and immediate liberalization in favour of the industrial products made in the relatively less developed countries should be agreed and that, if this is not acceptable, a term should be fixed for the liberalization which should not in any case be longer than five years; it is advisable that this liberalization should be carried out more rapidly by the countries at a more advanced stage of development than by the countries with insufficient markets.

(iii) The opening of the markets should be stable, that is, it should be of unlimited duration and the countries should undertake, never at any moment unilaterally to withdraw the concessions they have granted.

It should only be possible to reimpose restrictions on free access to the regional market for any product in virtue of conditions envisaged in the safeguard clauses.

The proposal that free access to the regional market should be permanent does not mean that the preferential treatment enjoyed by the relatively less developed countries as regards this access would also be permanent. This preferential treatment in fact simply constitutes an anticipatory liberalization. The countries' margin of preference within the intraregional trade resulting from immediate or accelerated opening of the regional market will gradually be reduced as the general process of trade liberalization among the other countries advances, and will finally disappear when the free-trade system is complete. If, however, ALALC continues to use the present system of selective liberalization, the other countries will have effectively to apply the provisions envisaged in resolutions III (IV) and 157 (VI) in order to maintain for a specific period the regional preference margins established in favour of the products of the relatively less developed countries. These margins would be established in the negotiations referred to in point (i).

(iv) The preference margins to be enjoyed by the relatively less developed countries in relation to their imports from third countries would be initially determined (supposing that they were given free access

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to the regional markets, total or partial according to products) in relation to the level of duties and the other restrictions applied by the other countries to imports of the same provenance. These preference margins would subsequently be consolidated at levels uniform for all the countries on the adoption of the common external tariff, which should be planned so as to provide a reasonable level of regional protection for the productions of the relatively less developed countries. But while the process of harmonization is being carried out the margins might in the case of some products be so small as to prevent the opening of the regional market from having its intended effect or the opening of the regional market might be affected by the reduction of duties and restrictions in favour of third countries. It would, therefore, be advisable in the period before the adoption of the common external tariff to negotiate and establish, whenever necessary, minimum preference margins in favour of the relatively less developed countries of the type envisaged in ALALC resolution 157 (VI). These minimum preference margins in relation to third countries should be negotiated for each product or group of products for which any relatively less developed country considers the resulting margin to be insufficient.

(v) As regards safeguard clauses, that already established by article 23 of the Montevideo Treaty will be sufficient. If full access to the regional market for the manufactures and semi-manufactures of the relatively less developed countries is accepted, this clause could function as a supplement or alternative to the lists of exceptions proposed in point (i). Thus, if the quantities or conditions in which these imports are made are such as cause or are likely to cause serious damage to particular productive activities of major importance in the economy of a country; the country might obtain permission from the Contracting Parties temporarily to impose or re-establish restrictions on imports of the products in question, as long as these are not discriminatory and do not involve a decrease in the customary consumption of the importing country. Resolution 173 (CM/I/III-E) adopted by the ALALC Council of Ministers in its meeting in December 1966 establishes the precise

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procedure to be used in applying this safeguard clause to imports from the relatively less developed countries, which is essentially that before approving the appeal to the clause the existence of the situation envisaged in article 23 mentioned above should be ascertained and the nature, scope and duration of the restrictions which can be allowed specified.

This resolution also makes that the measures envisaged in articles 24 and 25 of the Treaty, under which a member country may apply restrictions to imports from the region in the case of a serious disequilibrium in its overall balance of payments, must not be applied to imports from the relatively less developed countries made under the exclusive concessions. If undertakings to grant immediate or accelerated free access to all the industrial products of the relatively less developed countries are assumed it might be advisable, in cases where this exception has been an important factor in the disequilibrium, to make it conditional on the volume of the imports made under the concession, however, considering the small relative importance of the present and potential industrial production of the relatively less developed countries in the total for Latin America, it seems unlikely that this would ever occur.

Thus, the product of the relatively less developed countries of Latin America taken together is only 9 per cent of the overall product of the region.<sup>5/</sup> This implies that even if the regional market was totally opened to the industrial products of the relatively less developed countries their exports of these products to the other countries would not reach a scale likely to cause balance of payments problems for the latter. Although this might occur with respect to certain products or industries the risk would here be sufficiently covered by the safeguard clauses mentioned above.

A problem which becomes more serious in the light of the total opening of the market is that of the establishment of market of origin standards or requirement for industrial products. In spite of the years

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<sup>5/</sup> See chapter V "Industrial Integration".

/which have

which have passed since the signing of the Montevideo Treaty no satisfactory solution has yet been found for this. The difficulties arise not so much in the technical aspects as from the lack of decisions on the part of the countries, and it may be expected that the adoption of more far reaching undertakings will make them be considered with more urgency.

The document Conclusiones del Grupo de Estudio para países de menor desarrollo relativo (ALALC/C.VI/dc.20), submitted by the CEP to the ALALC Conference in its latest sessions, mentions among the possible measures in favour of the relatively less developed countries that of establishing market of origin standards involving specific acceptability requirements for products of particular interest to those countries which are less rigorous than those generally applied in the Area or for which delayed or gradual compliance is allowed. No judgement can here be made on this proposal - one which has been brought forward on a number of occasions by the relatively less developed countries and has met with strong resistance from some of the other member countries of ALALC - since this would require detailed study or analysis of the different ways in which these provisions could operate and of their effects on the trade and on the similar industries of the countries to which they applied. But it is obvious that in view of the importance of a measure of this kind for the relatively less developed countries, these aspects of the problem should be studied without delay.

(b) Liberalization by the countries at a relatively less advanced stage of economic development

The countries at a relatively less advanced stage of economic development must necessarily take part in the liberalization of intraregional trade by gradually reducing their duties and other restrictions on imports of products produced by the other countries taking part in the integration process. Nevertheless, preferential treatment should be established in this case also, allowing them to carry out the liberalization programme on specially favourable terms; for, since their industries and their economies in general are at a more incipient stage of development, they need to be protected against regional competition for a longer period.

/The need

The need for this preferential treatment has been recognized since the first studies were made on the economic integration of Latin America, and it is only here necessary to repeat the proposals concerning it given in ECLA documents and the undertakings or provisions already adopted in ALALC. According to paragraph (b) of article 32 of the Montevideo Treaty, the Contracting Parties may "authorize a Contracting Party at a relatively less advanced stage of economic development within the Area to implement the programme for the reduction of duties, charges and other restrictions under more favourable conditions, specially agreed upon". Although the bilateral nature of the negotiation has limited the efficacy of this provision, a request for authorization to apply it from Ecuador was favourably received by the other Contracting Parties, which in resolution 72 (III) authorized it to liberalize in 1963 only to the extent permitted by its economic conditions and development plans, and to do the same in 1964 and 1965 if these conditions persisted (as in fact they did). Paraguay has not had express recourse to this mechanism, which suggests that it has not so far considered it necessary. When Bolivia joined ALALC at the end of 1966 it was authorized by resolution 176 (VI) to implement the liberalization programme established by the Treaty under more favourable conditions compatible with its economic position and its projections for domestic development, both as regards the obligations which it had already accumulated and as regards the reductions programmed for the subsequent years.

Paragraph (b) of article 32 of the Montevideo Treaty is supplemented by the provision made in paragraph (d) of that article, according to which the Contracting Parties may "authorize a Contracting Party of a relatively less advanced stage of economic development within the Area to apply if necessary and as a temporary measure, and providing that this does not entail a decrease in its customary consumption, appropriate non-discriminatory measures designed to protect the domestic output of products included in the liberalization programme which are of vital importance to its economic development". Ecuador also requested authorization to apply this provision in order to protect a number of industries considered in its General Economic and Social Development Plan, some of

/the products

the products of which had already been included in the liberalization programme; it was then authorized by resolution 73 (III) to apply measures to protect its output of these articles for a period of five years from the date of their introduction.

It may be concluded, therefore, that, as regards the relatively less developed countries' implementation of the liberalization programme, under more favourable conditions in order to provide a longer period of protection for their industries and the adoption of restrictive measures for products already included by them in this programme for the same purpose, the relevant provisions of the Montevideo Treaty have been properly applied whenever the countries interested have so requested and have as far as is known, been sufficient for the objects for which they were established. It will not, therefore, be necessary to propose the adoption of further measures for the same purpose as long as the liberalization mechanism envisaged in the Treaty remains operative.

If, as is laid down by resolution 170 (CM-I/III-E), an automatic ("programmed" is the term used in the resolution) liberalization régime is established, this should, according to the same resolution, provide for the establishment of different liberalization rates for the relatively less developed countries relative to that of the other Contracting Parties. The ECLA secretariat has made proposals in this connexion in a number of its documents, in particular in A Contribution to Economic Integration Policy in Latin America (E/CN.12/728). It is, therefore, only necessary to state here that the provision of paragraph (d), article 32 of the Montevideo Treaty should be firmly maintained, and perhaps extended so as to enable the Contracting Parties to authorize the relatively less developed countries to maintain or increase customs duties on imports from the Area for certain products and for a specified period, in order to give adequate protection to industries which can reasonably be expected to be economically viable, particularly industries of vital importance to the economic development of these countries.

(c) Harmonization of duties on imports from the rest of the world and the common external tariff

The harmonization of duties and the eventual adoption of a common external tariff may raise serious problems, the relatively less developed countries which would not, or would only partially, affect the other countries.

The most important of these is that which would result from the fixing of uniform duties on capital goods, semi-processed products and other production goods at a suitable level for the protection of regional industry producing those goods. This level might, and in many cases would be higher than that which is in fact applied by the relatively less developed countries, either as fixed in the tariffs themselves or as a result of duty reductions or exemptions authorized for imports of production goods for industries meeting certain requirements under special régimes.<sup>6/</sup>

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<sup>6/</sup> Thus, Ecuador's Industrial Promotion Law of 1965 establishes the following privileges for imports of machinery, spare parts, accessories and raw materials: (a) for industrial enterprises belonging to the "Special" category, 100 per cent exemption during the first five years, and from the sixth year onwards payment of only 4.6 per cent of the c.i.f. value of the goods; (b) industries of category "A" pay only 4.6 per cent of the c.i.f. value, as do those of category "B" except in the case of raw materials; (c) other "registered" industries pay 70 per cent of the customs duties on imports of the goods mentioned above, except raw materials (Source: Centre for Economic and Social Development, Serie guía para el industrial N°2, Quito, October 1966). In Paraguay industries covered by law 246 on the incorporation of foreign capital or by decree-law 30, modified by law 202 on industrial promotion (new industries or industries already established in the country which expand or modernize their installations by at least 40 per cent) enjoy privileges (usually total exemption from duties and additional charges) for their imports of industrial equipment and, in some cases, of raw materials and semi-processed products not produced in sufficient quantities in the country. Similar régimes in favour of certain industries exist in other ALALC countries; but in general and especially in the most developed countries of the Area, which have a considerable output of capital goods and intermediate products, they involve privileges of more limited scope and the industries that have the right to benefit from them are more strictly defined.

And to the extent that duties and charges on imports from outside the Area are harmonized the countries will lose their freedom unilaterally to apply such exemption régimes. Under these conditions the harmonization of duties will mean that any industries which are established or which expand in the relatively less developed countries will have to pay higher duties for their imports of production goods from outside the Area, or else substitute them for supplies from within the Area, which for certain products - and perhaps for a very long time - will almost certainly cost more.<sup>7/</sup>

This problem might also arise, though it would not be so serious, in relation to manufactured consumer goods (particularly durable goods) not produced and with no chance of being produced in the short or medium term in the relatively less developed countries; the adoption of uniform duties on imports of these from third countries fixed at suitable levels for the protection of the Area's production - which is carried out in other countries of the Area - would again result in a rise in prices for the relatively less developed countries. On the other hand, the reverse situation might occur with respect to manufactures made by industries which are still in their incipient stages in these countries but are fully developed in the others: there would here be the danger that the uniform duties adopted would be too low to provide the protection needed by these industries in the relatively less developed countries.

Lastly, the harmonization and eventual equalization of duties on imports from third countries might create fiscal problems for the relatively less developed countries.

In the resolutions adopted in ALALC on harmonization and the external common tariff for imports from the rest of the world, these problems have been recognized in general terms and some aspects of them more concretely.

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<sup>7/</sup> Obviously a complete analysis of these effects should take into account the new trade flows which might be created in the relatively less developed countries as a result of the concessions and preferences facilitating their access to the regional market and of the prices of the exports made under these.

Thus, resolution 100 (IV), which lays down the basic guidelines for economic policy in connexion with foreign trade, establishes that the harmonized foreign trade instruments should ensure that the Contracting Parties have sufficient powers to deal with the particular problems of their own trade with third countries and that the ALALC secretariat will prepare a report on the problems of the harmonization programme for the instruments of foreign trade regulation which will analyze, among others, problems relating to the protection of domestic economic activities by fiscal means or through the balance of payments which may arise from the implementation of the harmonization programme. The Standing Executive Committee's resolution 104, of October 1966, which created the working party responsible for preparing a draft common external tariff, states that the working party should take into account, in addition to the basic guidelines established by resolution 100 (IV) and other basic principles, that of providing the Contracting Parties with the additional powers needed for them to deal with the particular problems of their trade with third countries and that among other reference material it should study the situation of member countries whose public revenues depend to a significant degree on customs duties and equivalent charges and in particular that of the relatively less developed countries, taking into account the document on the effects of the fiscal régimes on the co-ordination programme for economic policies prepared by the ALALC secretariat at the suggestion of the section "Fiscal Régimes" of document CEP/Resolución 98.

It is obvious that in preparing the common external tariff and determining the procedure and term for its gradual adoption the special situation of each country and particularly that of the relatively less developed countries should be taken into account and every effort should be made to reconcile and find the proper balance between conflicting interests. As regards the risk of deterioration in the terms of trade for the relatively less developed countries, it may be pointed out that this would be largely temporary and that the disadvantages which might in the early stages result from the displacement of supplies to the area of integration would tend to disappear as the market expanded as a result

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of the integration process. At the same time it may be expected that the levels at which duties are fixed in the common external tariff will not be so high as to result in excessive protection for the Area's industry, especially as regards capital goods. It must, in addition, be emphasized that assessment of the advantages of the integration to the countries taking part in it and in particular to the relatively less developed countries should take into consideration its overall effects as regards the expansion of trade - exports, imports and terms of trade - and on the national income.

It is obvious that specially favourable treatment for the relatively less developed countries in the harmonization of duties on imports from the rest of the world should be established in concrete terms. To this effect the following proposals might be considered:

(i) That these countries should be granted, generally or for specific products, a longer term for harmonizing their tariffs on imports from the rest of the world than that adopted by the other countries. It would be advisable to make this equal to the longer term granted to these countries for the implementation of the liberalization programme for intrazonal trade at a slower rate;

(ii) That provisions should be established for capital goods and other production goods (with respect to which the tariff harmonization will have most effect on economic development) according to which a relatively less developed country may be authorized by the other Contracting Parties or by an organ of the Association to import goods of this type from third countries duty-free or with reduced duties for a specified period, if they are for use in previously identified industries which operate on a regional scale or, more generally, in any industries to be installed or expanded in the country concerned, and as long as they are unobtainable within the region in sufficient quantities or the prices, quality and other conditions of supply of those obtainable within the region are unreasonable. Any analogous exception régime, whether of greater or smaller scope, could do as long as the exceptions were previously authorized - preferably by an organ of the

/Association -, were

Association --, were of limited duration and were based on certain requirements ensuring some degree of preference or priority for the capital goods production of the Area.<sup>8/</sup>

## 2. Financial assistance

Financial assistance is vital to a dynamic, far-reaching and rapid economic integration process in Latin America. It is even more necessary for facilitating the incorporation of the relatively less developed countries into this process. For reasons inherent in their incipient development - lack of resources and less capacity to mobilize them - these countries need financial assistance relatively more urgently than the others. Their prospects of taking full advantage of the opening of the regional market, of increasing their production capacity, diversifying their economies and speeding up their growth rate in the integration process all depend on external financial co-operation, as well as on technical assistance. The relatively less developed countries should, therefore, receive preferential treatment in this respect, in order that a balanced regional development and an equitable distribution of the benefits of integration may be achieved.

In making this special effort in favour of these countries the urgency, extent and nature of the external assistance for them and the most advantageous conditions under which it can be given must be taken into account. This external assistance, where it relates most directly to the integration process, should have the following as its chief objects:

- (a) Investments in infrastructure, particularly in energy, transport and communications, which lead to the economic and physical integration of these countries with the rest of the region;

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<sup>8/</sup> The preferential treatment granted to Honduras in the Central American common market in virtue of resolution 141 of the Central American Economic Co-operation Committee, adopted in their ninth meeting (January 1966), includes an exception régime similar to that proposed here. The preferential treatment was actually established by a Protocol to the Central American Agreement on Fiscal Incentives for Industrial Development and allows Honduras to exempt from duties imports of machinery, equipment, raw materials, semi-processed products, containers, etc. from outside the common market for periods of 12, 10 or 5 years, if they are to be used for the installation and expansion or modernization of a number of industries which have been classified in three groups. This preferential régime has a duration of five years and may be extended for longer.

- (b) Development programmes for the frontier regions;
- (c) Multinational projects with specific or multiple aims, such as the combined exploitation of river basins;
- (d) Establishment of new industries, expansion and modernization of existing ones and promotion of regional or sub-regional sectoral agreements of interest to the relatively less developed countries;
- (e) Adaptation and eventual adjustment of industries and other domestic activities to the conditions produced by the increasing liberalization of intra-regional trade;
- (f) Preparation of projects for the different activities to be integrated and of studies on natural resources. Situations should be envisaged in which all or part of the external resources would not be reimbursable;
- (g) Promotion of manufactures for export to the area of integration and to third countries. Organization of financial mechanisms in which domestic capital, that of the other countries of the Area and external capital are associated, to be used mainly for financing the establishment of industrial enterprises whose productions will increase and diversify exports;
- (h) Financing systems for supplies from the rest of the Area, mainly for imports of capital goods;
- (i) The alleviation of temporary deficits in intra-regional trade and the provision of financial aid to the regional payments systems;
- (j) Assistance for the training of skilled manpower and entrepreneurs, particularly in relation to the export industries;

As can be seen, these different objectives for which external financial assistance is needed are all related to the general integration process and in varying degrees would be of interest to all the countries of the region. But the need for it is particularly urgent in the relatively less developed countries if the factors limiting economic growth and the development process are to be removed. It is essential, therefore, to establish special instruments and procedures under which they will receive preferential treatment.

/It is

It is well known that financial assistance in the relatively less developed countries is of particular importance in connexion with the infrastructure, where its uses may be to finance specific projects for transport, communications and energy, or more far-reaching development programmes for frontier areas, or multinational projects with multiple aims. In these cases the countries concerned should be encouraged to provide an increasing contribution from their own resources, not, of course, omitting in the determination of the national contributions to take into account the economic and financial circumstances of the relatively less developed countries.

Investments in these different aspects of the infrastructure are for the most part the direct responsibility of the governments and constitute a field in which it is possible to establish well-defined programmes in relation to the relatively less developed countries, fix priorities and determine the amount and the organization of the technical assistance needed by the governments of these countries.

In Central America the Central American Bank for Economic Integration (CABEI) and the Central American Fund for Economic Integration which it manages, contribute to the financing of projects of this type. IDB grants resources to this institution, as do the United Nations Special Fund and IDA. IDB is becoming increasingly active in the promotion and financing of infrastructural works in Latin America and will be even more so when its Preinvestment Fund comes into operation. The International Bank for Reconstruction and Development and the United Nations Special Fund also contribute to this work.

Situations occur with respect to the industrial development and integration of these countries in which it is essential that the governments themselves make investments or contribute to the capital of certain enterprises, particularly in the case of strategic basic industries and that of industrial projects of multinational scale forming part of combined development programmes for frontier areas or established under sectoral agreements. When this occurs financial assistance is granted to the governments for preinvestment activities and the implementation of the projects concerned.

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On the whole, the installation of new industries and the expansion and modernization of existing ones is left to the initiative of the private sector. Financial assistance should here be used to promote special credit facilities for investing in these. The most effective instruments and procedures for the prevailing conditions of the different countries must be studied. In this connexion, the wide and useful experience of the state promotion and development banks or institutions should be taken into account. These have been operating for sometime, some of them with great success, in several Latin American countries. The different forms of financial assistance used by some of the EEC countries to promote the development of their economically backward regions and, in particular, the modes and rules of operation of the European Investment Bank are also of considerable interest. This institution makes loans to the governments of EEC countries or to public and private enterprises for the implementation of infrastructural and industrial projects in these backward regions, judging each project in terms of the contribution it would make to the development of the region and, where industrial projects are concerned, giving priority to activities which would have the most effect on related technical, economic or commercial activities.<sup>9/</sup>

The financial assistance to the private sector might take the form of medium- and long-term loans at relatively low interest rates for the creation of regional-scale enterprises in the relatively less developed countries and for the expansion and modernization of existing industries. The loans could be made directly through the regional financing organization or through national finance or promotion institutions receiving resources from the regional organization. There are, in addition, mechanisms for endorsing or guaranteeing loans obtained by enterprises from national, regional or extra regional private sources. The national industrial promotion institutions of the relatively less developed countries, which would receive financial contributions from the regional organization, could in certain cases grant non-reimbursable capital subsidies to industries whose development is of special importance.

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<sup>9/</sup> See the annex to this document The European Economic Community's regional development policy (E/CN.12/774/Add.1).

/These loans,

These loans, guarantees and capital subsidies would be granted up to a certain percentage of the investments to be made, which percentage might vary according to the nature of the activity, the size of the enterprise, the proportion in which it would use national or regional raw materials and other inputs, the number of people it would employ, the proportion of its production which it would export to the regional market and other factors.

These remarks on some patterns of financial assistance to the developing countries are intended only to illustrate the nature and scope which external co-operation in the promotion of regional integration should have, and, above all, to show that it is vital that a fairly precise definition should be reached of the principles, norms and priorities which must govern financial assistance in order that it may be in keeping with the objectives of the integration policy and the problems which it is being attempted to solve for all the countries and in particular for the relatively less developed ones, which, as was stated above, will need specially favourable or preferential treatment in this respect.

Another activity which deserves particular attention from financial assistance is the preparation of specific infrastructural projects that will contribute to the economic and physical integration of the relatively less developed countries with the other countries of the region and relate to multinational projects of interest to countries. The creation of the IDB Preinvestment Fund was a far-reaching step in this direction, though it would be a good thing if IDB would extend the operations of the Fund to the financing of industrial feasibility studies for projects which might later be the object of private investment.

A measure of this type might speed up the identification of the regional-scale industries which are to be established in the relatively less developed countries and would increase their capacity to absorb external financial assistance. In this way a coherent financial assistance might take shape which after promoting the identification of specific state or private investment projects would ensure that they were carried out.

/As a

As a complement of these, measures for promoting the circulation of capital in the area of integration should be studied and adopted. This, as well as being essential to the establishment of the common market towards which the Latin American countries are aiming, would be a decisive factor in the creation of multinational enterprises. The régime established for this purpose would obviously have to ensure an appropriate contribution of the national capital of the relatively less developed countries in order to prevent the opportunities created by the opening of the regional market and the financial and other advantages granted to the industries established in those countries from being mainly exploited by foreign capital.

Private foreign investment, while it can play a very important part in the integration process in general, could be of particular significance in relation to the relatively less developed countries. But patterns for this investment should be adopted which have very definite objects related to the national interests of promoting the industrialization of the countries, the diffusion of new techniques and the resulting technical progress. It is essential that the Latin American countries should adopt basic rules for a régime governing foreign investment which establish, among other aspects, treatment which is as far as possible stable, just and uniform but does not give it a privileged position relative to domestic capital and enterprises. On the contrary, appropriate formulas and patterns of partnership must be found which make for a growing contribution on the part of these latter, the modernization of their production processes and the introduction and use of new techniques. It should be recalled that the Punta del Este Charter states in this respect that it is necessary to promote the development of national Latin American enterprises so that these can operate on a basis of competitive equality with foreign enterprises.

Further aspects in which the relatively less developed countries face problems or limitations more severe than those of the developing countries are the adjustment of their industries to the competitive conditions created by the liberalization of trade, the disequilibria in intra-regional trade resources needed for financing essential supplies such as capital goods, and the promotion of exports of manufactures. These

/factors obviously

factors obviously justify their receiving preferential treatment and very much more favourable conditions for the financial assistance granted them for these purposes.

In this connexion it may be recorded that ALALC resolution 123 (V) established that the Standing Executive Committee should in collaboration with the national development organizations study and prepare modernization and adaptation programmes which will enable national enterprises to meet the competition resulting from the liberalization of intra-regional trade and recommended ICAP and IDB to use Alliance for Progress resources to increase the overall loans granted by IDB to national development organizations for the purpose of contributing to the modernization and adaptation of plants made uncompetitive by the liberalization of intra-regional trade. Moreover, resolution 124 (V) recommended IDB to study whether the financing system established for intra-regional exports of capital goods could be extended and made more flexible so as to include exports of other goods normally exported on deferred medium-term payment terms and exports of these and capital goods to countries outside the region. The same resolution recommended ICAP to assign to IDB from Alliance for Progress resources the sums needed for these studies and for the extension of the system if this is carried out.

In order to bring this financial assistance into operation an integral action programme must be prepared which is closely co-ordinated with those parts of the integration process that embrace the objectives towards which external financial assistance ought to be directed. This programme must be prepared and carried out in conformity with the fundamental guidelines of integration policy and under principles establishing the preferential and relatively more favourable treatment to be given to the relatively less developed countries.

There are four basic aspects to be considered in relation to this programme:

- (a) The additional resources to be given to IDB and the Central American Bank for Economic Integration to supply the needs of the regional integration process, and the allocation of resources for the financing mechanisms for compensating disequilibria in regional trade;

/(b) The

- (b) The definition, in collaboration with the integration organizations - ALALC and the Central American common market - of financial assistance policy in general and of the special measures to be adopted in relation to the relatively less developed countries, with the corresponding priorities;
- (c) The preparation of the basic norms and concrete mechanisms of the different applications of the external resources;
- (d) The appropriate institutional organization, with the corresponding machinery of regional and national co-ordination.

In this connexion, the ECLA secretariat in its document

A Contribution to Economic Integration Policy in Latin America (E/CN.12/728)

has already suggested that a mechanism for promoting investments in the preparation of concrete projects should be established. These investments might be included within the general framework of a regional investments policy prepared by the integration organizations (that is, the Board, an organ of the community proposed in the context of a new institutional organization). The mechanism was named the Investments Promotion Agency and was to be created by an agreement between the integration organs and IDB. The powers of the Agency were to be stipulated in this agreement and it was to receive from IDB the resources needed for its activities which, as was then suggested, were to relate primarily to the sectoral industrial agreements, i.e., it was to prepare ante-projects, advise the countries and the Board in negotiations, and give technical assistance and advice to the Board in its work of assessing the implementation of these agreements. Obviously, when the mechanisms for promoting financial and technical assistance are studied the ECLA proposal should be given a wider scope, as has been done in this document, so as to include infrastructural projects, regional programmes and other multinational projects. The need to establish an instrument for promoting investments by agreement between the organ of integration and IDB was also stressed in the proposals to the Latin American presidents submitted by the four economists, José A. Mayobre, Felipe Herrera, Carlos Sanz de Santamaría and Raúl Prebisch. They suggested that this

/instrument should

instrument should form part of the IDB system and that it should be jointly directed by both organizations. They described its main function as being to make preinvestment studies and prepare programmes and projects in the following fields: basic industries, frontier programmes, investments in regional infrastructure and investments in relatively less developed countries or in the correction of dislocations, adding that the functions assigned to this organization would be complementary to the important contributions already being made by the organizations of the Inter-American system and the international agencies and that a closer collaboration between all of these should be encouraged so that their efforts might be as fruitful as possible.

In connexion with the proposals made in this document, something should be said on the functions of the Central American Bank for Economic Integration, established in 1960, and the Central American Fund for Economic Integration which it administers, established in 1965. The purpose of the bank according to article 2 of the agreement constituting it is to promote the economic integration and the balanced economic development of the member countries. The same agreement specifies the sectors to which priority treatment should be given in realizing this objective. The chief of these are infrastructural projects, long-term investment projects for regional-scale industries or industries of importance to the Central American market, co-ordinated agricultural specialization projects, and the financing of enterprises which need to expand their operations, modernize their processes or change their production structure in order to adapt themselves to the new competitive conditions within the market. The Bank carries on these activities basically through loans and technical assistance. In this latter field it makes on its own account general studies of projects or programmes of great importance for the development of the region, which it then puts at the disposal of the governments or private initiative. It also pays for feasibility studies of specific projects, on behalf of the parties interested.<sup>10/</sup>

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<sup>10/</sup> See below, section VI, paragraph 2, of this report, "The Central American common market and the countries at a relatively less advanced stage of development".

The Central American Fund for Economic Integration was constituted with a contribution of 35 million dollars from AID and 7 million dollars in equal shares from the five member countries of the Central American common market. It is designed to meet additional public sector investment needs in connexion with the promotion and strengthening of the economic integration and balanced development of the region, using the resources available in such a way that the countries with less developed infrastructures have the right of obtaining larger loans. Loans and other forms of financial assistance may be granted from the resources of the Fund only to the governments of the member countries, to municipal and local governments, to Central American regional organizations and to autonomous or mixed state institutions of importance to the community. They may be used for the preparation and implementation of infrastructural programmes or projects, including technical instruction centres, grain storage, irrigation, soil drainage and conservation, reforestation, agricultural development, etc. The financial assistance covers expenses in foreign as well as local currency on favourable terms as regards interest rates and amortization-free and recovery periods, these varying according to the field in which the investment is made. In view of the progress made in Central American integration and the need to consider a group of projects within a single programme the Fund has been conceived as a financing system for programmes rather than for isolated projects.

The Fund's resources have turned out to be insufficient to finance other programmes which would have been suitable objects for it, such as the road plan included in the Regional Highways Programme, and to meet the demand for resources for the infrastructural development of the region. In view of this the Central American Committee for Economic Co-operation requested CABEI to make the necessary negotiations with the international credit organizations and other sources for increasing the Fund's financial resources and with the Central American governments for additional contributions on their part. As a result of these negotiations IDB granted at the beginning of this year a loan of 15 million dollars a year to supplement the Fund's capital. In accordance with the programmes submitted to IDB in the negotiation of the loan this will be invested

/in highroads,

in highroads, agricultural installations, the industrial inventory, telecommunications and electrical interconnexion. Of the total of the loan, 11.5 million dollars was taken from IDB's Fund for Special Operations; part of the rest was covered by resources for assisting the development of Latin America which the Canadian Government has been granting to IDB to manage since 1964. This is not the place to examine the practical organization of the action programme for financial assistance described on previous pages. The ECLA secretariat, as part of its plan for studies on the problems of the relatively less developed countries in the regional integration process, has decided to hold at an early date a technical meeting with representatives of the integration organs (ALALC and CACM), the regional finance institutions (IDB and CABEI), the Inter-American Committee of the Alliance for Progress (ICAP) and the Organization of American States (OAS) to discuss the proposals made in the present document. With the help of these bodies it will be possible to progress in the study of the different problems and, in particular, of the financial assistance aspects mentioned here. The secretariat will then be in a position to increase the scope of this document and to bring to the meeting of high-level representatives of the relatively less developed countries which it is due to hold more precise ideas on the practical decisions to be taken and the machinery of action to be set up, many aspects of which are here no more than outlined.

### 3. Technical assistance

Technical assistance is an essential complement of financial assistance and most of what has been said here on the latter applies equally to it. In addition, in view of the close connexion and complementarity between the two, it is usual to consider them together.

The connexion is particularly close in the case of the relatively less developed countries. Technical assistance is needed in all the fields mentioned above as appropriate objects of financial assistance and, in addition, in some where this latter is not applicable or plays a very minor role.

/As directly

As directly regards the integration process, technical assistance is of particular importance to the relatively less developed countries in the following aspects:<sup>11/</sup>

- (a) The identification and preparation of projects for the different activities connected with infrastructural development and the works needed for these;
- (b) The study and preparation of programmes for the development of frontier regions, for the exploitation of river basins and for multinational projects with multiple aims;
- (c) Studies in connexion with the prospection, recovery and use of natural resources;
- (d) The study, preparation and implementation of sectoral agreements;
- (e) The identification, preparation and execution of industrial projects, in particular for regional-scale industries and industrial complexes;
- (f) Studies in connexion with the expansion and modernization of existing industries in order to facilitate their adaptation to the new conditions of regional competition, to promote exports made viable by the opening of the market, and to recondition those unable to withstand this competition;
- (g) Advisory services for entrepreneurs and manpower training.

Technical assistance is very important in the relatively less developed countries in connexion with advisory services for entrepreneurs and manpower training. Besides covering the installation of new industries and the expansion, modernization and reconditioning of existing ones, it should often extend to the organization and administration of the enterprises concerned, marketing, the different studies for export promotion and other aspects such as the introduction of technical standards

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<sup>11/</sup> In addition to the fields mentioned here for their immediate connexion with the integration process there are many other specific activities in which these countries need technical assistance. This assistance can, and in fact does cover practically all aspects of economic and social life and public administration.

and the control of quality. The establishment of mixed enterprises in which domestic capital is associated with regional or extra-regional capital should also considerably help to improve the technical levels of organization, efficiency and overall training.

One of the greatest obstacles to the establishment of industries of relatively complex technology is scarcity or at times, total absence of suitably trained manpower. This is due to the fact that, from the lack of jobs for skilled workers, few have been trained and those who have, often emigrate to other countries. There must, therefore, be a combined effort to train manpower and at the same time to create jobs for them. A procedure which has had considerable success is that of combining instruction in technical schools or training centres with on-the-job training. The enterprises which are in future established in the relatively less developed countries will initially need a great deal of technical assistance from other countries within the region and outside it, but ought immediately to bring into operation programmes for training their own manpower. To this end it should be established as obligatory that the enterprises use a specified proportion of national apprentices, which can vary according to the size of the enterprise and the activity in which it is engaged. These apprentices would for a definite period receive training in the enterprise itself and in a technical school or training centre.<sup>12/</sup>

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<sup>12/</sup> This system has been used in Brazil since 1945 in the National Service for Industrial Apprenticeship (SENAI), and a similar system was established in Colombia more recently. Under this system all industrial enterprises in Brazil are obliged to take into apprenticeship a number of minors of less than 18 years of age proportional to their total number of workers. This proportion varies according to the activity and in some cases is as high as 40 per cent. The enterprise must pay half-wages to these apprentices during the four years of their apprenticeship. The apprentices work six months of each year in the plant and during the other six attend one of the numerous training schools or centres established by SENAI in various parts of Brazil. The creation and the operations of these schools are financed by an obligatory contribution from the enterprises of 1/2 of one per cent of the total of the wages they pay. In addition to these basic apprenticeship courses SENAI runs specialization courses for adults, which are optional and last from six months to a year.

Technical and financial assistance would be needed for a system of this kind to operate in the relatively less developed countries. The technical assistance would consist in supplying experts, technicians and teachers, organizing the training schools and centres and bringing them into operation and granting training scholarships in other countries within the region or outside it.<sup>13/</sup> The financial assistance would consist in subsidizing the costs of the national schools and centres and, at least partially, the wages of the apprentices, and, in addition, the cost of bringing trained workers from abroad during a definite period. These are expenses which, if they had to be paid by the enterprises themselves, would tend to prevent their establishment in these countries. Apart from this the financial and technical assistance should cover the retraining of national manpower displaced by the reconditioning of industries unable to stand up to regional competition.<sup>14/</sup>

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13/ ALALC resolution 74 (III) establishes just this, i.e., that the Contracting Parties of the Montevideo Treaty should supply technical assistance of this type to the countries at a less advanced stage of economic development, this to include the granting of scholarships for the training of enterprise managers.

14/ A precedent to this is provided by the European Social Fund established by the Treaty of Rome for promoting employment facilities within the EEC and the job and geographical mobility of workers. This Fund covers up to 50 per cent of the expenses incurred by the governments of member countries in retraining workers and transferring them to new jobs and helping workers who are totally or partly unemployed as a result of the establishment of the common market. The European Coal and Steel Community (CECA) conducts similar activities on a greater scale and with wider scope for the workers of the coal and steel industries by giving financial assistance to enterprises which have to close down or be reconditioned in order that they can continue paying a substantial proportion (up to 90 per cent) of the wages of their workers for the period - which may be as long as one year - needed for their retraining in other skills. This retraining is sometimes carried out in training centres established or financed by CECA.

/Both the

Both the Central American countries and the relatively less developed member countries of ALALC have been receiving technical assistance in almost all the fields mentioned here and in many others connected with integration (e.g. general development programming) from various regional and international organizations such as IDB, the Latin American Institute for Economic and Social Planning, the ALALC secretariat, the United Nations Development Programme, FAO, ILO, AID and the ECLA secretariat. This assistance is normally provided through advisory groups formed jointly by two or more organizations, a system used in Central America and for the ECLA/IDB/ALALC groups set up for Paraguay and Ecuador under the ALALC Standing Executive Committee's resolution 50. It has resulted in numerous studies, technical reports and programmes which in many cases have been of great importance for research into natural resources and in connexion with the identification of the needs and potential of these countries as regards the improvement of their infrastructure and the establishment of new industries or the expansion of existing ones with a view to the regional market. Considerable progress has also been made in preinvestment studies for multinational projects and for programmes for the development of frontier regions and, in some cases, in the implementation of these.

In spite of all that has been said above, there are various considerations which suggest that it would be useful to make an overall study of the technical assistance granted to the relatively less developed countries in order to discover to what degree it could be made more efficient, above all as regards the integration process. This is all the more advisable because a direct orientation of studies, research and assistance on the integration process can be said to exist only in the Central American countries, or if it does exist in the ALALC countries, it is to a much smaller degree.

The following are some of the major aspects which might be taken into account in a co-ordinated international, regional and national programme in this field:

/(a) The

- (a) The regional and international institutions which have responsibilities in this field and the integration organizations should make a special effort to give preferential attention to the relatively less developed countries both as regards studies and research and as regards the direct advice needed by the governments of these countries. There are many important aspects of technical assistance in which the co-operation of the other Latin American countries could be extremely valuable.
- (b) The technical assistance programme should be closely co-ordinated with the financial assistance programme, with the other measures of integration policy and with the actual development of the integration process;
- (c) The mobilization of the relatively less developed countries' own resources, changes in their institutions and the training and organization of their manpower would seem to be essential for the technical assistance to be absorbed productively and to raise national levels;
- (d) Technical assistance provided in connexion with integration should be closely co-ordinated with general technical assistance for promoting economic and social development, without prejudice to the priorities established in the field of integration;
- (e) It would be useful to study the technical assistance received by these countries in all aspects - sources, patterns, regional and national co-ordination, effectiveness, degree of absorption and diffusion in the countries, etc. - in order to determine to what degree and by what means it can be made more efficient.

#### 4. Fiscal and domestic promotion incentives

Fiscal incentives are often used by the governments to channel investments and stimulate specific activities of particular economic or social importance. These incentives normally take the form of exemptions from or reductions of taxes on persons and enterprises or on the capital goods and inputs used in these activities.

Measures of this type are usually designed to encourage the establishment of new industries and the expansion and modernization of existing ones, and to promote exports of manufactured products. They are also used to attract foreign investment.

According to the different objects proposed, different instruments are adopted for implementing this policy, or it is supplemented with other measures of fiscal policy or general economic promotion. Thus, when it is intended to encourage the expansion and modernization of certain activities total or partial exemption from customs duties on imports of machinery and equipment is usually granted, and, in addition, total or partial exemption from taxes on profits reinvested in fixed asset goods and in rapid amortization of equipment. When the fundamental object is to promote exports what is granted is usually exemptions or drawbacks from the charges on imports of the inputs used in producing the goods concerned and from the internal taxes levied directly on these goods.

Although fiscal incentives are domestic measures, the province of each country individually, rather than communal or external assistance measures, their use by countries taking part in an economic integration process is liable to have considerable repercussions on the operation of the common market, and particularly on the competitive position of domestic industries in the enlarged market. Special treatment of this kind for certain industries is liable to prejudice healthy competitive conditions in the regional market or to turn into preferential treatment of capital investment by one country relative to that provided by the others. If this situation led the different countries to compete in granting these incentives, it might result in considerable damage to the legitimate interests of some of the countries and to the effective

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operation of the common market. It is, therefore, essential that the fiscal incentive policies and, in particular, the treatment of foreign capital applied by countries taking part in the establishment of an effective common market should be harmonized. But in this aspect of integration policy also preferential treatment should be established for the relatively less developed countries.

This problem has been partly taken into account in the Montevideo Treaty. Article 15 of this provides that "in order to ensure fair competitive conditions among the Contracting Parties and to facilitate the increasing integration and complementarity of their economies, particularly with regard to industrial production, the Contracting Parties shall make every effort - in keeping with the liberalization objectives of the present treaty - to reconcile their import and export régimes, as well as the treatment they accord to capital, goods and services from outside the Area".<sup>15/</sup> In resolution 81 (III) ALALC ordered the compilation of a variety of information on the treatment of and régimes for foreign capital in order that it might take steps towards the harmonization of these, and later, in the action programme established by resolution 100 (IV), ruled that the ALALC organs should begin to study the fiscal régimes of the Contracting Parties with the object of determining their effects on the development of the programme for the co-ordination of economic policies and that in studies on the industrial and agricultural sectors fiscal aspects should be taken into account. The Standing Executive Committee's resolution 98 of August 1966, which established the schedule for work on the projects and studies envisaged in the above-mentioned resolution 100 (IV), ordered that studies should

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<sup>15/</sup> The Treaty of Rome approached the problem in a more thorough-going fashion. Its article 92 rules that, apart from the exceptions which the treaty provides for, all state aid granted by means of state resources in favour of certain enterprises or activities which distorts or is likely to distort competition will be considered inconsistent with the common market in the degree to which it adversely affects trade between the member countries.

be made in order to determine: (i) the incentives to be applied in countries where industry producing for the regional market is installed, and (ii) the incentives to be granted by the other countries in response to the installation of industry of this type in these countries. The ALALC secretariat has been ordered to prepare a report on these studies which will be considered in the fourth meeting of the Advisory Committee on Industrial Development (CADI). It is interesting to note that according to ALALC resolution 139 (VI) the Contracting Parties are to give the relatively less developed countries assistance by not providing for their own territories incentives to investments in activities previously specified by the Contracting Parties for which non-extendable concessions have been granted to Ecuador and Paraguay. Other resolutions, such as 100 (IV) of ALALC and 98 of the Standing Executive Committee, refer to export promotion régimes, the harmonization of measures concerning imports from third countries and the adoption of a common external tariff, these latter being treated together with trade policy measures. It may be said, in conclusion, that except in connexion with these aspects, ALALC has not yet given overall and systematic consideration to the general problem of the harmonization of fiscal incentives and the special treatment to be established for the relatively less developed countries with a view to taking concrete decisions.

A very different situation obtains in the Central American Common Market, where the Central American Agreement on Fiscal Incentives to Industrial Development of 1962 established a uniform fiscal incentives régime whose object was precisely to harmonize the five member countries incentive policies for new industries, in keeping with the needs of the integration and balanced economic development of Central America. To this latter end a temporary article was included in the Agreement which excepts Nicaragua and Honduras from the uniform incentives régime for a period of ten years, allowing them during this period to exempt new industries established in their territories from direct taxes. In addition, since their adoption of a common external tariff for almost all tariff items, the Central American countries no longer have the

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power to grant non-uniform customs franchises to new or existing industries for imports of capital goods and other production goods without express permission.

Honduras was recently authorized by a Protocol to the Agreement on Fiscal Incentives to grant greater benefits to industrial enterprises established in its territory than those envisaged in the Agreement. These consist of customs franchises - which can stand for up to twelve years - for imports of machinery and equipment and in some cases, raw materials and semi-manufactures to new industries or industrial enterprises already established in the country which expand their activities. The government of Honduras can also allow certain industries the rent-free use of industrial buildings which it has at its disposal for a period of ten years or it can sell these to them at half their value. It can, in addition, authorize any industrial enterprise which expands its installations to deduct from the amount of their profits liable to gains taxes the sums they reinvest in industrial buildings, machinery and equipment, etc.

These procedures and mechanisms already applied in the Central American Common Market in connexion with the harmonization of fiscal incentives and the granting of relative advantages to particular countries of the area so that they can encourage investments to be made in their territories are very instructive as regards the nature and purpose of the measures which might be adopted in ALALC or in a Latin American common market in order to carry the integration process further. Within this harmonization of the economic and fiscal policies of the countries taking part there could also be established norms and mechanisms in virtue of which the relatively less developed countries would still be authorized to grant specially favourable treatment encouraging investments to be made in their territories, in order that these countries might be able to share in the benefits of integration and a balanced regional development be achieved.

#### IV. THE INFRASTRUCTURE

A fundamental requirement for the development of productive activities is the existence of adequate economic infrastructure, particularly for transport, communications and power. In the relatively less developed countries the infrastructure is inadequate and a vicious circle occurs. The industries required for their development are not established there precisely because the necessary infrastructure is lacking and at the same time the infrastructure is not improved because of the absence of industries that require it or because it is not known whether or not they will be established or, if established, what their characteristics might be. Consequently one of the most essential measures required by these countries is that which will break the vicious circle through the provision of infrastructural works envisaged in terms of the countries' future economic expansion.

##### 1. Transport and communications

###### (a) Introduction

Inadequate transport facilities prevent the relatively less developed countries from participating fairly in development opportunities deriving from regional economic integration. The lamentable position of these countries with respect to their ability to share in regional trade flows, which arises from their present stage of development, is aggravated by the low density and the disarticulation of their internal transport systems, as well as by deficiencies in their international channels of communication, which present obstacles to their access to the markets of the region, reduce their ability to benefit from their potential comparative advantages, and diminish their capacity to attract industries and form development poles.

The various transport media and the structure of a transport system in general present advantages for the development of some economic activities and disadvantages for that of others. Although criteria for achieving the optimum utilization of each transport medium are well known, their application to each relatively less developed country or zone requires

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concrete analysis of the conditions in these. Characteristics of geography and topography influence in varying degrees investment requirements for construction of railways or roads and conditions of exploitation, while the presence of a good network of navigation, natural or subject to improvement without large investments, would increase the relative advantages of river navigation. On the other hand, existing or potential production centres in these countries are, or would be, located at varying distances from their markets or suppliers.

However, in general terms, it may be said that in all the relatively less developed countries high priority should be given to improvements in the state of maritime transport and port operations and that in the field of land transport, which is destined to play an increasingly important part in the process of inward development, higher priority should be given to roads and automotive transport. This is due to the fact that they require less investment than railways and that the volume and concentration of traffic is usually not great enough to justify the development of the railways, even where the factor of distance should favour this means of transport. In certain cases air transport may be very important, especially for freight.

It is often advisable to analyse a group of interdependent projects, either for a single or for various transport media, in a specified zone or region. In this way the analysis of the economic feasibility or productivity of the transport projects tends to be at least partly fused with a global analysis of development, as seen from the spatial point of view. Regional economic planning techniques developed in recent years are therefore of great interest for the studies to be undertaken.

Another general aspect that should be emphasized is that it would not be advisable to make a sharp distinction in transport studies between international and national systems. In reality, the improvement or construction of international roads which serve only to link the relatively less developed countries with other more developed ones may give rise to the danger of exposing the former to even more vigorous competition from production centres in the latter. In order to avoid this disadvantage, it is essential to improve simultaneously the internal transport system of the less developed countries.

(b) Importance of the IDB's Pre-investment Fund for Latin American integration

An important contribution to the study and practical solution of transport problems in the countries referred to is constituted by the Pre-investment Fund of the IDB and the first draft work programme is prepared, with the co-operation of ECLA's Transport Programme, and of personnel from other interested regional bodies, particularly the ALALC and the SIECA (Permanent Secretariat of the General Treaty on Central American Economic Integration). The draft outlines a work programme in the fields of (i) roads and road transport; (ii) maritime transport; (iii) river transport; (iv) air transport, (v) rail transport; and (vi) telecommunications. It is envisaged therein that carrying out the programme outlined will require the formation of a Technical Group that would prepare or promote the preparation of studies and the co-ordination of work being done by various regional international bodies that would participate in studies of transport problems in Latin America. This Technical Group would, if possible, be made up of the Chiefs of Transport Units of the various agencies. Likewise, when advisable, special committees of government experts would be organized to examine the proposals of the Technical Group, prior to their consideration by the Transport and Communications Council of the ALALC or by the SIECA, as the case might be. It would be highly desirable that the Technical Group meet as soon as possible.<sup>1/</sup>

(c) The contribution of development programmes of the United Nations and of other regional or international bodies

Taking into account the magnitude of the problems, the urgency of preparing studies directed toward their solution, and the limitations of the IDB's Pre-investment Fund, it would be advisable for the Technical Group to examine likewise, in co-operation with other competent agencies and authorities of interested governments, the possibility that certain studies,

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<sup>1/</sup> In September 1966 the Permanent Executive Committee of the ALALC approved a recommendation of the Advisory Commission on Transport (CAT), to the effect that the signatory countries should present, through the Committee, to the next meeting of the CAT its transport plans relating to programming of projects of multinational interest.

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particularly those on pre-investment, be carried out by the United Nations Development Programme, which encompasses the Special Fund and the Technical Assistance Programme, or through technical assistance programmes of other regional or international organisms.

(d) List of priority studies in the field of transport and communications, particularly studies of multinational projects

Perhaps the first task of the Technical Group should be the preparation of a complete and priority-ordered list of the studies that should be undertaken on specific transport and communications projects. However, this would require more complete information, in particular from the authorities in the relatively less developed countries, with respect to projects of regional interest, including those under way, those being studied or in the programming stage, and those not yet studied. Once it has been possible to prepare, in consultation with the interested governments, a complete list of the problems and projects that should be studied, the Technical Group could suggest priorities. A point of departure for the preparation of such a list is the draft work programme of the IDB's Pre-investment Fund, as well as a list of multinational projects already published by this organization.<sup>2/</sup> Other useful material is constituted by a review of the transport and communications problems and projects of most importance from the viewpoint of regional integration which was prepared by ECLA for the Group of Experts convened by the Preparatory Commission of the Meeting of American Presidents. The principal points of this review are presented below:

(i) Roads. Technical and economic feasibility studies are required and efforts should be directed toward accelerating the construction, termination or improvement of international roads of special interest for the relatively less developed countries. For this purpose, it would be advisable to prepare a regional short-term plan for the improvement or construction of roads with immediate and high priority for the countries referred to, as well as an integral (technical, economic and financial) long-term plan for the gradual development of an adequate international road network.

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<sup>2/</sup> Inter-American Development Bank, Lista de Proyectos Multinacionales, Washington, August 1965.

For this purpose, it would be necessary to analyze completely the network of the Panamerican Highway System, including the Panamerican Highway itself and alternative routes, as well as other international highways which have been incorporated into the System, such as the Panamerican Transverse Highway in South America. In spite of considerable progress in the construction and improvement of the System, there are long stretches that are interrupted or transitable only during part of the year, the best known being the so-called Tapón del Darién between Panama and Colombia. Technical feasibility studies are being carried out on this, the latter by the Permanent Directive Committee of the Panamerican Roads Congress.<sup>3/</sup> In addition, technical feasibility studies for the construction of the South American Forest Edge Highway are under way, with financing by the IDB. This road, together with the Panamerican System and other roads now under construction or improvement (such as that between Mendoza and Valparaiso), provide the main basis for a future road network for the South American continent. Although a number of technical feasibility studies have been made, not enough attention has been given to financial and productivity problems and other economic requirements for ensuring that road development contribute more effectively to improvement of the zones influenced by it. This is particularly the case in the less developed zones and countries.

The relatively less developed countries will likewise be interested in studies on border area integration such as those carried out by the IDB on Colombia-Venezuela and Colombia-Ecuador areas. These studies envisage the construction or improvement of a considerable amount of road network.

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<sup>3/</sup> In mid 1966 the total length of the Panamerican Highway System was 76,261 km of which 41,978 corresponds to the Panamerican Highway itself and 34,289 to alternative routes. On the Panamerican Highway, 32,829 km are transitable all year round, 22,462 km of this being paved, and 9,149 km are interrupted or transitable only in dry weather. Along the alternative routes, 27,266 km are transitable all year (18,241 km of which are paved) and 7,017 km are interrupted or transitable only for certain periods.

In Central America plans are under way for the construction or improvement of 13 roads which would provide adequate trunklines. Technical, economic and financial studies have already been prepared by the IDB and others, but financing has not yet been forthcoming.<sup>4/</sup>

Optimum utilization of roads in the region raises a series of problems in connexion with automotive traffic facilities for passengers and freight. These problems have already been the subject of debates in the Transport and Communications Council and the Advisory Commission on Transport of the ALALC and have given rise to a tripartite agreement between the Governments of Argentina, Brazil and Uruguay. Likewise the Transport Programme of ECLA has completed a study which deals in part with the European experience in this field, including the nature and scope of bilateral and multilateral agreements.

(ii) Maritime transport. Two groups of problems arise for the relatively less developed countries with respect to maritime transport: (a) those related to the level and structure of shipping rates in regional trade and the improvement of maritime transport in general, particularly with respect to quality, regularity and frequency; and (b) those relating to the improvement of port conditions.

In the first case, mention must be made of the importance of the regulations and application of ALALC's Water Transport Agreement, which has been signed by the nine member countries.<sup>5/</sup> Of particular interest for the relatively less developed countries are the provisions of articles 24 and 25 of the Agreement. According to article 24, The Contracting Parties

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<sup>4/</sup> For a rough idea of this type of requirement, the cost of constructing the Darien Gap (Tapón del Darién) has been estimated at 270 million dollars, the South American Forest Edge Highway works at close to 500 million and those of the Panamerican Transversal Highway at close to 200 million; the termination of the Central American road network comes to 73 million dollars.

<sup>5/</sup> By virtue of a provision of the Agreement limiting its signature to countries that were members of the ALALC at the time of its adoption in May 1966, Venezuela and Bolivia will be able to adhere only after ratification by the signatory countries.

will continue their efforts to concede to mediterranean countries and territories the necessary facilities, and to improve existing ones required to facilitate their maritime, river and lake transport, as well as increase movement of goods through the ports. Article 25 provides for the purposes of facilitating the development of the incipient merchant marines of the Contracting Parties, the pertinent principles established in the Montevideo Treaty and in the resolutions of the Contracting Parties of the ALALC will be taken into special account. With respect to this latter provision, the Peruvian Delegation put on record that account will be taken of the resolutions that support those countries qualified as economically relatively less developed and those with an insufficient market referred to in resolution 71 (III) of the Conference of the Contracting Parties.

The Agreement likewise envisages the setting up of regional maritime conferences under the supervision of the Commission of the Agreement and the governments of the Contracting Parties. The special commission charged with the preparation of the draft rules of the Agreement met at ALALC's headquarters in Montevideo at the end of May 1967.

ECLA's Transport Programme has undertaken a study on problems related to the level and structure of rates in regional trade, in order to determine the conditions under which maritime services might contribute most efficiently to regional integration. The first results are expected to be available by the middle of 1967.

The difficult and complex problems and obstacles related to improvement and rationalization of port conditions in the region are already well known. IDB's draft Pre-investment Fund programme foresees a continuing process of "reconnaissance studies", organized by the Technical Group. In view of the importance that port efficiency has for maritime transport, it would be advisable that in programming such studies, the Technical Group give preferential attention to problems arising in the relatively less developed countries.

(iv) Railways. The international rail lines and connexions in the countries of the southern cone of Latin America are of special interest for various relatively less developed countries and zones. Among the

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problems related to improvement of technical and operating conditions of existing lines and connexions, are those stemming from different gauges of track and other factors related to the need to expedite and rationalize international rail transport in all its aspects. With reference to studies and projects in this field, the IDB's draft Pre-investment Fund programme pointed out that it would be possible shortly to obtain positive results without heavy investments.

In the course of 1967 ECLA's Transport Programme will undertake, with the co-operation of a regional expert from the United Nations Development Programme, a study on regional rail transport problems, with a view to the formulation of recommendations and solutions that might enhance the contribution of transport to regional economic integration.

The same problems are receiving the attention of the Latin American Railway Association, with which ECLA has established close co-operation.

Finally, one of the relatively less developed countries has shown special interest in the completion of the Transcontinental Railway from Santos (Brazil) to Arica (Chile) which still requires the construction of a 400 km stretch in Bolivia. This is about ten per cent of its total longitud. It would seem indispensable that a careful study be made of the economic justification of such an ambitious project, which would permit linking the eastern and western Bolivian networks and have great importance in the long run.

(v) River transport. River transport could have considerable importance for various countries and zones that are relatively less developed. For example, the South American Forest Edge Highway will traverse vast zones endowed with a large network of navigable waters, which would make it possible to combine road and river transport. However, river navigation is not sufficiently developed even in the rivers of the Plate Basin, the Amazons and some tributaries in Brazil, and the Magdalena River in Colombia, which make up a very important part of the Latin American river network.

It would be most advisable that the Technical Group envisaged in the IDB's draft Pre-investment Fund undertake the preparation of a programme of studies relating to the improvement of navigating conditions and the

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development of regional fluvial transport. Such studies could form part of the programmes for integrated development of international water basins sponsored by the same Pre-investment Fund and, in connexion with which a study of the Plata Basin is about to be undertaken.

Mention should likewise be made of the important United Nations Special Fund project for the improvement of navigating conditions in a branch of the Paraguay River, to the south of Asunción.

(vi) Air transport. Particularly noteworthy from the viewpoint of the relatively less developed countries are: (a) air transport of cargo or merchandise; (b) technical, operational and commercial co-operation between airlines, for passenger as well as freight service, including the formation of multinational associations or consortiums especially for the operation of regional and international services; and (c) the expansion and modernization of the infrastructure, including airports and aeronautical installations.

Air transport for freight has many advantages, the principal being that much less investment in infrastructure is required for this purpose than for land transport. The advantages of air transport could be augmented by taking advantage of technical advances with respect to the capacity and characteristics of operation of cargo planes.

The nature of technical progress and the investments required both for land installation and for the airplanes themselves, mean that the only possible way that the relatively less developed countries can exploit this medium and attain equitable participation in international air transport is through the formation of consortiums or joint-operating associations of airlines. In January 1967 representatives of six airlines in Argentina, Colombia, Chile, Ecuador, Peru and Venezuela adopted, in a meeting in Lima, a Declaration for the establishment of a consortium for the joint exploitation of air freight services, which would permit them to compete in freight traffic with other airlines operating to and from Latin America. The Declaration was subsequently submitted to the respective governmental authorities for their approval.

/(vii) Telecommunications.

(vii) Telecommunications. The relatively less developed countries and zones are particularly affected by deficiencies in telecommunications; therefore the Inter-American Telecommunications Network project is of great interest to them. This project has been the subject of extensive debates in the Inter-American Telecommunications Commission of the OAS, as well as in the International Telecommunications Union. The preparation of definite plans for the establishment of the network has been entrusted to the Regional Group on Telecommunications for Latin America (GRETAL) created in the meeting of the Commission of the Plan for Latin America of the ITU, held in Santiago, Chile in March-April 1965. According to preliminary estimates of the GRETAL, investments required for the network are of an order of magnitude of 200 million dollars, of which about 70 per cent would correspond to the Pacific route.

Studies assigned by the IDB to a consulting firm to determine the technical and economic feasibility of establishing land stations that would permit linking the most important Latin American population centres through satellites likewise will provide very valuable background material for the studies of the GRETAL referred to above.

A step directed toward prompt action was taken by the GRETAL in June 1966 when it presented for consideration by interested governments an "Immediate Plan for the Establishment of International Telecommunications connexions for all Countries of the Southern Cone of Latin America", (Argentina, Bolivia, Brazil, Chile, Ecuador, Paraguay and Uruguay). The GRETAL will prepare similar plans for the prompt improvement of international connexions between the other countries of the region.

The technical and economic feasibility of constructing a Central American Telecommunications Network has been studied extensively. Particularly noteworthy is a report of a World Bank Mission financed by the United Nations Special Fund. The interested governments foresee the creation of a Central American Telecommunications Company.<sup>6/</sup> It would seem advisable to accelerate financing and execution of the project.

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<sup>6/</sup> However, the Agreement setting up the Company, reached in a conference held in San José, Costa Rica in July 1965, was signed only by Nicaragua and Costa Rica. In April 1966 the Governments of Nicaragua, El Salvador, Guatemala and Honduras signed a treaty creating a Regional Technical Commission on Telecommunications.

## 2. Energy and natural resources

### (a) Introduction

Knowledge concerning available natural resources and the economic conditions affecting their exploitation is a basic need for the less developed countries in relation to regional integration. External technical and financial assistance in acquainting them with their own resources would be a highly effective means of pursuing more balanced and dynamic regional economic evolution.

Whatever the origins of present imbalances between Latin American countries, the harmonious development of international basins would be one of the most effective fields for multinational action for reducing existing differences between them and integrating their economies.

The concept of "basins" includes the territory or drainage area around a lake or river, as well as the waters themselves. Both elements - land and water - constitute in practice a new physical unity which must be dealt with together in order to obtain optimum economic results, since both components are interdependent and it is not possible to manage adequately one of them without dealing with the other. Likewise there are other elements located in the same area (the various types of vegetation) which influence and are related to these.

In terms of area covered, the principal international basins of Latin America are those of the Amazon, Plate, Orinoco, Lempa and Grande Rivers, as well as those of Lakes Titicaca and Guija, but there are almost seventy in all. Although a detailed study has not been made, it may be said that a good deal more than half of the Latin American area is included in basins of this kind. There, rich and extensive regions lie unproductive or have a very low yield, due to factors which impede the development of a zone and others deriving from the multinational nature of the river or lake with which they are connected.

Variations within national plans in orders of priority for their development and at times lack of understanding among interested countries postpone indefinitely not only the execution of works that would make possible or appreciably improve the utilization of their resources, but likewise the study and research necessary for comprehensive knowledge of

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them and planning for their use. Thus important hydroelectric potential, vast lands with great agricultural possibilities, which in some cases require irrigation and in others control of frequent floods, and navigable rivers that require the improvement of small branches, do not fulfil their substantial economic promise nor play their social role, due to lack of concerted action on the part of the corresponding national governments.

By way of example, the geographical positions of Bolivia and Paraguay place them, to a large extent, in international basins. Practically any work related to water that is carried out in those countries has repercussions, to a greater or lesser extent, for rivers of interest to other countries.<sup>7/</sup> This is due, not only to economic factors (maximum utilization of resources) but also to financial reasons, considerations of international equity and, to a certain extent, juridical motives.

The need for integral planning and management of basins is no longer questioned, since advantages obtaining are evident. Apart from these, another type of benefit should be stressed which, although intangible, has great importance for regional integration. This has to do with the development of the spirit of cooperation and the increase in understanding among men of science and technicians in different countries that necessarily arises through this type of multinational project.

Integral planning of a basin tends to require a period of research and study that may last several years. To neutralize the discouraging effects that this has in non-technical governmental circles, it should be clarified that there are almost always some problems requiring urgent solution which may be undertaken in the short run without interfering with or committing the general plan.

Lack of knowledge concerning real possibilities and scope offered by specific projects in international basins influences interested countries to assign varying degrees of priority to them in respective national plans. If each and every country would carry out general planning studies within the scope of its jurisdiction in each basin, it would soon facilitate the identification of projects which would merit priority on both sides of the border.

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<sup>7/</sup> Those concerning water flow regulation favour all the lands located downstream from the corresponding project.

Since physical possibilities are numerous and the financial ones very limited, as is also the availability of technical personnel, strict criteria should be applied to the establishment of priorities. At times considerations of a political and strategic nature may prevail but the basis for adopting decisions should be fundamentally the evaluation of the economic factors. Such evaluation is always necessary, even when it serves only to demonstrate the cost of deviating from the most economic solution. It will permit determining, among other things, whether the project studied is feasible or advisable within the national development programmes, and will establish the relative economy of the different forms and magnitudes of the project and of its final planning. There are various types of evaluation, but no one of these may be recommended as the only one to use; there is not one that can automatically replace the good judgement of specialized technicians.

In general these projects are of broad scope and require careful and long preparation before reaching the international level. The financial effort required is usually great and demands the contribution of the interested countries. The problem of distribution of investment and joint costs in multiple-purpose projects is particularly important for works of interest to various countries. Existing international organisms or others that might be created especially for the purpose, could make a valuable contribution to the "objective" evaluation of this type of project and to distribution of costs.

In addition to international basins, there are bodies of water exclusively of one or various countries which are of interest to countries located outside the limits of the corresponding basin; their utilization may be considered "of international interest".

International interconnections of electrical systems, even when touching on national rather than international hydraulic resources, can create programming problems in multinational environments.

(b) Multinational projects under study or under way

In Latin America there are numerous projects of multinational interest at very different stages of study. Some of these are listed below for illustration. Others are mere possibilities, perhaps not yet examined by the interested governments, which merit study in order that their economic viability may either be confirmed or rejected.

(i) Among those which are under way the following should be mentioned: (Grande Falls) and advance interconnection of the principal electrical systems of Argentina and Uruguay. It is advisable to continue and accelerate the review of the project already carried out in order that it may have the most economical level (an additional three meters height of reservoir and fall than that of the present project), extending the benefits of the work to permit navigation on a major branch of the Uruguay River. It is advisable for agreement to be reached with Brazil, where the greater part of the feeder basin is located, on run-off conditions to ensure specified minimum flows.

Likewise the participation of the interested countries in financing the work should be clarified, foreseeing that only towards 1985 will Uruguay be able to absorb half of the total installed capacity, providing that this country proceeds immediately with the development of national plant such as the Palmar one. Moreover purchase and sale prices of energy, the potency of international transfers, as well as corresponding institutional characteristics must be established in advance.

The Salto Grande works will connect the two main systems of Uruguay and Argentina. The corresponding lines imply heavy investments which would only be justified as elements in the total project. However, it is possible to conceive of a weaker and direct (Fray Bentos-Gualenguaychú) inter-connection temporarily advancing a part of the lines in order to start the exchange of energy between both systems, mainly peak load energy of the hydraulic plants of the Negro River and base energy of the Argentine thermal stations. Detailed analysis of the technical aspects and respective costs and benefits of this advance interconnection are required in order to evaluate its economic feasibility. Such analysis calls for a knowledge of programmes for expansion of generating capacity in each country and the characteristics of the demand curves of each system.

Definitive study of the market for the Acaray I Station (Paraguay).

The station under construction over the Acaray (Paraguay) River, with 90 MW installed is expected to have an average annual generating capacity of 280 GWh, which is more than twice the total generation in the country at present (120 GWh). Under these conditions it is indispensable to evaluate, on realistic bases, possible demand within Paraguay and in the Brazilian and Argentine zones as well. It is possible that the latter may absorb up to a third or a quarter of the above-mentioned total.

(ii) Among projects already started and which are in the complementation stage, the following should be mentioned:

Acaray II and Monday (Paraguay). The Acaray project foresees the installation of an additional 90 MW as a second stage in construction of the station and 60 MW in another plant located upstream. Thus total installed capacity in the Acaray River would reach 240 MW with an annual generating average of 1,080 GWh.

Preliminary studies have shown that the Monday River has characteristics quite similar to those of the Acaray, envisaging the possibility of installing 160 MW, with a possible average annual generation of 690 GWh.

Immediate works that should be carried out would include:

Undertaking the detailed project for a reservoir and upstream station on the Acaray River;

Studies of the works on the Monday River (which could be quite similar to those on the Acaray), carrying out the advance draft projects, which would subsequently be converted into construction works in accordance with a new technical-economic evaluation;

Extend the market study to cover longer periods of time and more extensive geographical regions, with a view to determining possible zones of economic influence for such a power block in the face of present small demand.

Apipé. This project is concerned with utilization of the Saltos del Apipé (Apipé Falls) on the Paraná River, which belong jointly to Argentina and Paraguay. A draft project has been prepared by the Joint Argentine-Paraguayan Commission which envisages the installation of 2,100 kW to generate annually an average of 13,500 GWh. The project

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likewise includes improvement of navigating conditions in the Itatí - Posadas branch of the Paraná River, where traffic is at present limited and dangerous. This aim would greatly benefit the development of Misiones Province and the rich southeastern region of Paraguay, in addition to the western zone of the State of Paraná in Brazil.

Research and technical-economic studies to be carried out should include projections of demand in the system to be served (Buenos Aires-Coastal) envisaging prior installation of the Salto Grande and Chocón-Cerros Colorados stations - and perhaps some others on the Limay River - not yet well defined, and the possible interconnection of the Buenos Aires Coastal system with the Montevideo-Negro River system of Uruguay. The economic evaluation of the benefits of navigation should include analysis of the feasibility of a lateral canal with locks as a work which, advancing the reservoir and plant project, might ensure in a relatively short period year-round navigation up to Posadas and Encarnación. It is difficult to consider this integral Apipé project in isolation from a general development plan for the Plate Basin, since it is related to the recovery of lands in Corrientes Province and eventually to diversion of flows of the Paraná to Uruguay (Straits of Iberá, Aguapey and Miriñay Rivers, etc.)

Lake Yojoa-Lindo River and complementary works.<sup>g/</sup> This project is located in Honduras, but its economic use will only be possible if an international system is established that would include El Salvador or form part of a more extensive Central American system. By developing a plant on the Lindo River and through appropriate diversions and storage on the Yojoa Lake, it would be possible to obtain a total capacity of over 100 MW generating more than 500 GWh. This is in excess of present consumption in El Salvador and Honduras together, but would offer a very solid basis and alternatives for certain national plants in El Salvador. Comparative studies (including those on transmission lines) would have to be completed in order to arrive at the most advantageous solution.

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<sup>g/</sup> There are other electricity projects of interest to more than one country. Thus, the extreme south of Costa Rica could be connected with the Chiriqui Province of Panama and the north with the bordering region of Nicaragua. The latter country's frontier zone could be connected with Honduras.

Border zone development in certain countries. IDB-sponsored studies on integration of border zones in certain countries (Venezuela-Colombia, Colombia-Ecuador) have indicated interesting development possibilities for hydraulic resources which merit more profound technical and economic study. It would be necessary to select those works which appear more urgent and carry out the corresponding studies and projects.

Similar situations arise in adjacent regions of Chile, Bolivia and Peru where studies of the above-mentioned type have not yet been made.

(iii) With respect to preliminary studies, the following are noteworthy: Salto del Guairá or Sete Quedas (Guaira Falls) (Brazil-Paraguay). The economically significant capacity of these falls is unknown. Only very general estimates have been made, which exceed 20,000 MW.

It is recommended that studies be continued. From the hydrological viewpoint, natural flows must be investigated, including analyses of maximum floods and a study must be made of the potential influence on these of the construction of upstream reservoirs. (In the upper basin of the Paraná some studies are being made and some projects are under way: Furnas Strait, Meribondo, Urubupungá, etc.) Better knowledge of geology and topography are required for examining alternative design and determining those that would be in harmony with the natural environment and be subject to development by stages, in conformity with the growth of demand of the systems to be fed and possibilities for financing construction.

Such studies should not be limited to projects involving great concentration of energy of an international character, but should consider also time preferences of other "national" hydroelectric resources (particularly from Minas Gerais to Rio Grande Do Sul in Brazil) which are less known and of smaller scope but which, being located closer to consuming centres and for other reasons, should be developed first.

Demand projections for systems should be made simultaneously, including analysis of various possible interconnexions between them in order to integrate major systems.

Lake Titicaca. This is a notoriously important case but it has received very little study, although various notions exist concerning how to go about development. What is required is a joint preliminary analysis

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that would consider all concurrent factors in order to define possibilities for multiple development of the lake. In this case, even recognizing that sovereignty over the waters is shared only by Bolivia and Peru, it would be necessary to study possible hydraulic markets as a whole (hydroelectric energy, irrigation, chemical industries, etc.), including the north of Chile.

River Plate Basin (Brazil-Paraguay-Bolivia-Argentina-Uruguay). The methodical and integral study of this basin should be started as soon as possible. It should be pointed out that the solution to some of the navigation problems of the Paraguay and Paraná Rivers, south of Resistencia, have a high priority for the economies of Paraguay and Bolivia (exploitation of Matún iron ore). According to recent preliminary studies considerable improvements in navigating conditions could be made in the branches mentioned, without having to wait for the integral analysis of the Plate Basin, through works that would be carried out within the framework of financial possibilities of the interested countries.

Amazon Basin - Mamoré-Madeira Sub-Basin (Bolivia-Brazil). The control of frequent floods on the northern plains of Bolivia and solution of navigation difficulties of the principal rivers of this basin - resulting from certain rapids (cachuelas) - would permit solid and active incorporation into the Bolivian economy of important agricultural resources which, due to their extension and quality, have been classified as among the best in Latin America (meat, fine woods, almonds, etc.). Thus an economic means of transport could be assured for their exportation.

(c) Energy

It is impossible to conceive in present times of an industrial activity that would not consume energy and the majority require it in its most developed state: electricity. To operate economically on a regional scale very many industries need energy in large quantity and at a very low price.

(i) Hydroelectric: Most projects for utilization of international basins are multiple purpose and the basis of their economic feasibility is the production of electrical energy. This has been seen in the various examples already mentioned.

/(ii) Petroleum

(ii) Petroleum and Petroleum Products: In addition to abundant hydroelectric resources, Latin America also has rich deposits of hydrocarbons. Among those that favour the relatively less developed countries, mention should be made of the favourable geo-economic location of the petroleum and natural gas fields in Bolivia.

It should be noted that in Paraguay, to the south of Asunción, a petroleum refinery has just been installed with a capacity to treat 10,000 barrels daily, although at present it is operating only at half capacity, consistent with national demand. This refinery is supplied with North African crudes, transport of which is costly and uncertain for the following reasons: In the River Plate Trans-Atlantic tankers must transfer their cargo to river tankers of lesser draught, which must travel against the current when loaded and come down unloaded. Moreover the reduced depth of the water in difficult stretches makes it necessary to interrupt supply in periods when the Paraguay River is low.

Since the Paraguayan refinery is the topping type, the structure of the derivatives adjusts well with these crudes to present demand requirements, including, in relative terms, the high consumption of fuel oil which ANDE burns in its Port Sajonia thermoelectric station. However when the Acaray hydroelectric station starts operating in a few months from now, there will be a substantial surplus of fuel-oil.

The solution to all these problems is to be found in the use of Bolivian crudes the composition of which permit obtention of a reduced volume of heavy derivatives. The oil pipeline required would be about 800 km long and its natural slant would greatly reduce the need for pumping. To increase the volume processed and make more economical the operation of the Asunción refinery and oil pipeline, it is necessary to study the supply of gasoline and other derivatives through this system to certain Argentine cities to the south of Asunción, such as Formosa, Resistencia, Corrientes, Barranqueras, Bellavista, La Paz, Reconquista, Goya, etc. Thus the navigation distance of the fuels by river would be much less than when carried from San Nicolás or Buenos Aires and movement would be in the same direction as the current. Moreover, supplying Ituzaingo and Posadas could likewise be more economical in the form suggested.

/The industrial

The industrial complex of Sao Paulo (Brazil) a great consumer of energy, would seem to be the most logical market for Bolivia's natural gas. The corresponding gas pipeline would be 2,000 km long. If this project is well studied, including examination of reserves existing in Bolivia, it would result highly beneficial for the economies of both Bolivia and Brazil.

The north of Chile has an expanding economy with a high demand for energy. It is possible that the most advisable source to serve it might be through exploitation of geothermic resources of the Tatio, at present being studied with the assistance of the United Nations Special Fund. On the other hand, natural gas deposits of southern Bolivia merit consideration as an alternative source of energy supply. The length of the corresponding gas pipeline would be about 700 km. The height that would be necessary for crossing the Andes and severe climatic conditions prevailing do not appear to present serious problems for present technology.

Argentina now purchased limited quantities of petroleum from Bolivia and could, with the growth of its industrial activity, become an important alternative market for this country's hydrocarbons, providing proved reserves of deposits located in the Salta Province should not increase to the extent foreseen in the corresponding national plans.

(iii) Geothermical energy: In the north of Chile, geothermic evidence (geysers) has been found which eventually may be used for generating energy. Such is the case with those existing in El Tatio (Antofagasta Province) in Puchuldiza (Tarapacá Province). El Tatio is already the subject of a United Nations Special Fund project. These investigations could be extended to a broader zone that would cover border areas of Bolivia and Argentina.

(d) Mining

In view of the special urgency that attached to resolution of the problems relating to the supply of fertilizers based, in so far as possible, on regional raw materials, it would be advisable to give preferential study to this topic. In this connexion, it is recommended that urgent attention be given to the completion of studies for exploiting the Tacora volcano zone, which includes territories in Bolivia, Chile and Peru and

/seems very

seems very promising. So much so that in the Chilean area alone, and on the basis of incomplete data not totally confirmed in the field, it is estimated that there are reserves of an order of magnitude of 10 to 12 million tons of sulphur content.

Likewise, in various parts of South America studies have been made of mineral genetics and mining possibilities which would benefit from more systematic analysis. This is the case for border areas of Chile and Argentina (North-Central Zone), the Chilean North and certain regions in Bolivia and Peru. In the first three countries, studies of independent projects have been made with the assistance of the United Nations' Special Fund. It would be advisable to broaden zones under investigation and correlate the studies in order to attain a broader and more global view of the Andean region in question.

/V. INDUSTRIAL

## V. INDUSTRIAL INTEGRATION

### 1. Some aspects of industrial integration

#### (a) Position of the relatively less developed countries

In the present Chapter, 15 countries of the region are considered to be relatively less developed.<sup>1/</sup> In 1964 these countries had a total population of 36.3 million and covered an area of 2.6 million square kilometres. They account for 15.0 per cent of the total population of Latin America and 12.7 per cent of its area. (See table 1.) The per capita gross domestic product of the relatively less developed countries taken together reached 255 dollars in 1964, corresponding to a little over half of the average product of the region.

On the whole industrial development is incipient in these fifteen countries. The share of manufacturing industry in gross domestic product was only 14.5 per cent, whereas it was 24 per cent for the Latin American region.

Characteristics that appear to be common to all the countries are the narrowness of their markets, resulting from small populations; a low income level with regressive distribution; incipient stage of industrialization, reflected in the small contribution of this activity to gross domestic product and the structuring of industry so that traditional activities still represent about four fifths of manufacturing production<sup>2/</sup> and three fourths of the industrial product are generated by craft activities;<sup>3/</sup> a weak economic and social infrastructure; unsatisfactory social development and insufficient exploitation or development of natural resources.

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<sup>1/</sup> These are relatively non-industrialized countries which are members of the Economic Commission for Latin America. Listing of them does not imply any judgement on whether or not they must or should become part of a Latin American economic integration process.

<sup>2/</sup> See The Process of Industrialization in Latin America (E/CN.12/716/Rev.1).

<sup>3/</sup> See La pequeña industria en América Latina (ST/ECLA/Conf.25/L.17).

Table 1

LATIN AMERICA: RELATIVELY LESS DEVELOPED COUNTRIES, 1964

Countries	Population (thousands of persons) a/	Area (thousands of km <sup>2</sup> ) a/	Per capita product (dollars)	Relation of industrial product to the total (percentage)
<u>A. Central American Common Market</u>	<u>12 322</u>	<u>433</u>	<u>256</u>	<u>14</u>
1. Costa Rica	1 387	51	384 b/	14 c/
2. El Salvador	2 824	21	227 b/	16 c/
3. Guatemala	4 305	109	273 b/	14 c/
4. Honduras	2 209	112	199 b/	13 c/
5. Nicaragua	1 597	140	232 b/	13 c/
<u>B. Caribbean Area</u>	<u>13 147</u>	<u>384.4</u>	<u>262</u>	<u>14</u>
1. Barbados	245	0.4	371 d/	9 c/
2. Guyana	629	215	327 d/	15 c/
3. Haiti	4 660	28	108 e/	9 e/
4. Jamaica	1 773	11	420 c/	16 c/
5. Panama	1 246	76	446 c/	16 c/
6. Dominican Republic	3 619	49	206 d/	15 c/
7. Trinidad and Tobago	975	5	617 d/	13 c/
<u>C. South America</u>	<u>10 811</u>	<u>1 789</u>	<u>246</u>	<u>16</u>
1. Bolivia	3 697	1 098	169 e/	12 e/
2. Ecuador	5 084	284	283 e/	17 c/
3. Paraguay	2 030	407	291 e/	16 c/
<u>Total</u>	<u>36 280</u>	<u>2 606.4</u>	<u>255</u>	<u>14.5</u>
<u>Latin America</u>	<u>243 000</u>	<u>20 548</u>	<u>449</u>	<u>24 e/</u>

a/ Demographic Yearbook, 1965, United Nations publication. (Sales No: 66.XIII.1.)

b/ Banco Centroamericano de Integración Económica, Oportunidades de inversión en el Mercado Común Centroamericano, 1965.

c/ Preliminary identification of the least developed among developing countries, 20 January, 1965 (UNCTAD, Research Memorandum No 6/1).

d/ Yearbook of National Accounts Statistics, 1965, United Nations publication (Sales No 66.XVII.2).

e/ El proceso de industrialización en América Latina, Anexo Estadístico (E/CN.12/716/Add.2).

/As for

As for the situation existing in the industrial sector of these countries as a group, differences between countries with larger markets and those with medium-size markets are considerable. The industrial product of the fifteen countries in 1960 represented less than 5 per cent of the total for the region. Product per person employed was half of that for the average-size market countries and a quarter of that in the large-market ones. Craft activity represented 40 per cent of industrial product, whereas in the medium-size-market countries the figure 30 per cent and in the large-market countries 25. Employment in craft activities accounted for 75 per cent of industrial employment, while this proportion was only 54 per cent in the medium-size market countries and 41 per cent in the large-market ones. Finally, there is a great difference in these countries between the productivity of manpower in craft activities and that of factory workers. The former is only about one fourth of the latter, whereas in the medium-size-market countries, the proportion was one third and in the large-market countries one-half.<sup>4/</sup>

The 15 countries may be classified geographically as belonging to three area groups: the Central American Common Market (5), the Caribbean Area (7) and South America (3). Although these groups have similar populations, per capita product, and levels of industrialization, their area and their position with respect to the integration process have different characteristics.

The countries that comprise the Central American Common Market have more homogeneous characteristics than those of the other two groups with respect to per capita product and industrial structure. They make up a geographical unit and have been engaging in a definite process of economic integration since 1960. The countries of the Caribbean Area, on the other hand, have heterogeneous characteristics. Per capita product ranges from 108 dollars (Haiti) up to 617 dollars (Trinidad and Tobago); the degree of industrialization varies from 9 to 16 per cent, and the population from 245,000 inhabitants (Barbados) to 4.7 million (Haiti). Four of the

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<sup>4/</sup> See La pequeña industria en América Latina (ST/ECLA/Conf.25/L.17).

seven countries that make up the group recently acquired their independence and maintain close cultural and commercial ties with the United Kingdom. None of these belongs to the Central American Common Market nor to the ALALC. Finally, the three South American countries are members of the ALALC and are geographically dispersed.

A very general estimate of the present importance of the joint market of the 15 countries, taking into account population and the income level per capita, indicates that it would be somewhat larger than that of Venezuela and smaller than that of Argentina. On the other hand, the Central American Common Market is larger at present than that of Peru and smaller than that of Chile and Colombia. The present size of the market of Latin America as a whole is comparable to that of one of the following European countries: The United Kingdom, France or the Federal Republic of Germany.

This picture may change considerably over the next ten or twenty years. If it is assumed that population will grow at the rate foreseen in United Nations' studies <sup>5/</sup> and per capita product will increase in accordance with the goals established in the Punta del Este Conference,<sup>6/</sup> the combined market of the relatively less developed countries, measures through estimates deriving from their total product, would almost double over the next ten years and would quadruple in the next 20 years. (See table 2.)

If the same methodology is applied to the Latin American countries as a whole, a population of 343 million may be expected by 1977 and 457.7 million by 1987. The corresponding figures for per capita product in these years would be 619 and 792 dollars. This gives an indication of the potentialities of the region's market.

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<sup>5/</sup> World Population Prospects, United Nations publication (Sales N°. 6.XIII.2).

<sup>6/</sup> A rate of annual growth of 2.5 per cent was applied over the 1964 base.

Table 2

LATIN AMERICA: RELATIVELY LESS DEVELOPED COUNTRIES, 1977 AND 1987

Countries	1977		1987	
	Population (thousands of inhabitants) a/	Per capita product (dollars) b/	Population (thousands of inhabitants) a/	Per capita product (dollars) b/
A. <u>Central American Common Market</u>	<u>18 056</u>	<u>353</u>	<u>26 528</u>	<u>452</u>
1. Costa Rica	2 133	529	3 205	678
2. El Salvador	4 095	313	5 913	400
3. Guatemala	6 142	376	8 870	482
4. Honduras	3 224	274	4 843	351
5. Nicaragua	2 462	320	3 697	409
B. <u>Caribbean Area</u>	<u>17 991</u>	<u>361</u>	<u>25 321</u>	<u>462</u>
1. Barbados	280	511	297	655
2. Guyana	930	451	1 357	577
3. Haiti	6 269	149	8 617	191
4. Jamaica	2 000	579	2 277	741
5. Panama	1 795	615	2 644	787
6. Dominican Republic	5 394	284	8 346	364
7. Trinidad and Tobago	1 323	851	1 783	1 089
C. <u>South America</u>	<u>15 308</u>	<u>339</u>	<u>21 388</u>	<u>434</u>
1. Bolivia	5 493	233	7 329	298
2. Ecuador	7 128	390	10 292	499
3. Paraguay	2 687	401	3 767	513
<u>Total</u>	<u>51 355</u>	<u>352</u>	<u>73 237</u>	<u>450</u>
<u>Latin America</u>	<u>343 009</u>	<u>619</u>	<u>457 657</u>	<u>792</u>

a/ World population prospects, United Nations publication. (Sales N° 66.XIII.2.)

b/ Projection of per capita product for years 1977 and 1987 was calculated on the basis of the series presented in table 1, assuming annual growth of 2.5 per cent, which was the goal considered in the Charter of Punta del Este.

/(b) General

(b) General considerations

An important obstacle to the process of industrial integration is the insufficiency of basic data on the various industrial sectors and on natural resource endowment. The difficulty is more acute in the relatively less developed countries. In reality the formulation of basic guidelines for the industrial integration process requires the accumulation of data that would permit identification, at a preliminary stage, of the principal technical and economic problems that arise in each sector and indication of alternatives and options of the countries of the region and of the institutions involved in the integration process. In this connexion ECLA has carried out various studies <sup>7/</sup> in the principal branches: steel, non-ferrous metallurgy, chemicals, pulp and paper, mechanical and textile industries. In these sectoral studies an effort was made, when data were available, to cover the situation of all the countries of the area. The conclusions reached in them demonstrate certain basic technical alternatives which would permit promotion of more rapid progress in industrial integration.<sup>8/</sup>

Elsewhere in the present document emphasis is placed on the general acceptance which has been given to the idea of granting special treatment to the relatively less developed countries in order to speed up their economic and social development process within the process of regional integration. This principle acquires added significance, when considered in the content of industrial development, where differences between these countries and the more developed of the region are pronounced. The preparation of a body of measures in this sector necessarily involves consideration of a series of problems the solution of which must fit into general industrial development strategy for the region. In this connexion

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<sup>7/</sup> See Activities of the joint ECLA/INSTITUTE/BID Programme on the Integration of Industrial Development (E/CN.12/L.13, October, 1966).

<sup>8/</sup> In this connexion, mention should be made of advances achieved in international co-ordination of the subject of fertilizers in relation to integration of the sector in Latin America.

it has become evident that the relatively less developed countries have a long way to go yet in the field of substitution of imports of manufactured products. At the same time it has been shown that it would not be advisable for them to repeat the import substitution model of the more developed countries of the region, which in general has been characterized by excessive protection, resulting in relatively low productive efficiency in many industrial sectors, under-utilization of installed capacity and high costs. In other words, import substitution in these countries should be selective and be concentrated on those industries that have a multiplier effect on the rest of the economy, whether because they require national raw materials or intermediary goods, employ a large amount of manpower, encourage the establishment of other activities that would utilize their products, or because they can export to the region or to the world market. There will always be development possibilities for those industries that can benefit from the availability of local natural resources and lower transport costs.

In the field of traditional industries, opening up the markets of the larger countries to the products of the relatively less developed countries could offer interesting prospects for the latter. Some of the traditional industries of the more developed countries of the region have obsolete equipment and low efficiency which result in high costs. The new and modern plants that would be established in the relatively less developed countries, particularly in those sectors in which important technological innovations have recently come about, could make it possible for them to place their products advantageously in such markets, obliging competitors to improve their installations and production techniques, which in turn could lead to greater specialization. For example, the cotton textile industry in Paraguay has higher levels of efficiency than those prevailing in several countries of the area.

Likewise new export industries should be established in the relatively less developed countries, whether for supplying regional requirements or the international market. There are interesting possibilities for certain food industries, such as preserved fruits, vegetables, seafoods, and for certain textile specialties, clothing, forest products, drugs, etc. It is even possible that in certain dynamic sectors these countries might have

/comparative advantages,

comparative advantages, deriving from possibilities for developing local natural resources and scale economies.<sup>9/</sup> On the other hand, it is becoming increasingly evident that there is a need to prepare plans for evaluation of natural resources, conservation and restoration of the natural environment, geological and mining research, and foreign market studies.

In order to achieve optimum utilization of national and regional resources, it will be necessary to take regional integration possibilities in the industrial field into account in the national programmes of the relatively less developed countries in specific terms. It is advisable to avoid the indiscriminate proliferation of plants producing the same article, which has led, in many countries of the area, to atomization of a market that is already small and highly stratified. Only if economic integration aims are included within the development plans of each country will it be possible for Latin America to achieve balance and harmonious development.

In the measure that technical progress is the fundamental variable in determining comparative advantages of the economic activities of the countries, such progress should be forcefully stimulated. The transfer and diffusion of technical knowledge is a difficult task, particularly since the Latin American countries are in general quite dependent technically on external influences. This dependence is not only onerous but in many cases means the imposition of technologies that are not well adapted to the existing local relationship between capital costs and manpower nor to the dimensions and characteristics of the market, nor the training level of manpower.

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<sup>9/</sup> The installation of an ammonium plant in Trinidad and Tobago is an example, as well as the alumina plants in Jamaica. The possibility of installing an alumina plant in the Dominican Republic is also being studied. Operation on an economic scale would be made possible if the plant could supply market requirements of Mexico and Venezuela. Another project is that for a plan in Honduras making cardboard containers for bananas, that would supply the Central American market and might export to countries outside the area.

Other aspects that merit special attention in the industrial integration process are those that relate to differences between countries in levels of production costs which are not directly related to comparative advantages, exchange disparities often deriving from different rates of inflation and the different structure of the customs tariffs.

(c) Sectoral agreements <sup>10/</sup>

In analyzing problems presented by integration in the industrial field, ECLA has indicated the advisability of using sectoral agreements as a basic instrument. In reality such agreements permit carrying out a regional investment policy in strategic sectors, supported by a trade policy that establishes the regional common market for the sectors involved and by decisive action in the field of technical assistance which might narrow present productivity gaps between countries or between industrial enterprises.

The aim of the sectoral agreements is simultaneously to harmonize conditions of competition and promote the development of the pertinent industrial sector. In all types of such agreements it would appear necessary to set up provisions relating to both objectives but the proportion between them will depend on the focus of the individual case, which may require more or less emphasis on one or another aspect. Moreover such agreements include a very important body of provisions concerning technical and financial assistance in favour of those countries that are in an unfavourable position to compete, due to insufficiency of basic resources, small markets or some other initial deficiency that might be overcome through such provisions and through a cooperative regional effort.

An agreement for programming development of a sector on the basis of specified commitments with respect to results within 5 and 10 year periods (pertaining to investments and trade movement), might dispense at least in the first stages, with very detailed rules and regulation and

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<sup>10/</sup> Extract from the document A Contribution to Economic Integration Policy in Latin America, (E/CN.12/728), Cap. VII, where the main aspects to be considered in sectoral agreements are described in detail.

envisage setting up a special mechanism for consultations and solutions to difficulties and for adopting the corrective measures that might be found necessary. This course would appear to be the advisable one under present Latin American conditions. In this sectoral approach, conditions of competition are gradually harmonized in a different way for each sector of the industry and formulas, mechanisms and commitments are adapted pragmatically to the conditions in each sector, taking into account likewise the different entrepreneurial attitudes with respect to integration. The fiscal régime, promotion policy, treatment of capital and firms of third countries would be standardized or harmonized (within certain limits) between the different member countries, according to the separate requirements of each sector and to criteria that vary with each case. Following this pragmatic approach of limiting commitments to those indispensable for achieving effective integration of each sector, it would be possible to arrive at levels and forms of harmonization that would be very different for different sectors.

It would be advisable to take certain precautions in order to avoid distortions between sectors that could be produced by sectoral agreements. In the first place, the agreements should be prepared for a relatively large number of sectors which together would represent an important proportion of total manufacturing industry. In addition, they should be prepared and negotiated simultaneously or within a relatively short period. This would permit an overall view and relative uniformity of the criteria applied in each sector in relation to the degree of harmonization deemed indispensable and to methods for achieving it. In the second place, sectoral agreements should fit into a general framework of trade policy commitments and of harmonization of policies concerning the economy as a whole, within which specific sectoral commitments might accelerate integration. In order to achieve this aim, it is necessary first to establish the final goals of integration, that is to ensure that the concrete measures taken in successive stages converge towards a specified final objective.

The main characteristic of a sectoral agreement should be its adaptation to specific circumstances and to difficulties in the respective branch of industry.

## 2. Analysis by Industrial Branches

The following pages will analyze some of the many aspects of the broad range of problems that can arise in the formulation of programmes for developing the various sectors of industry, paying special attention to the position of the relatively less developed countries and their possibilities within the regional development process. The majority of these problems have been discussed in studies on industrial sectors carried out by ECLA. In the present study however aspects related to the position of the relatively less developed countries will be stressed.

### (a) Mechanical industries

The supply of mechanical products of domestic origin is very small in the relatively less developed countries and local activities are mainly concentrated on the manufacture of products involving simple techniques. It is well known that these countries lack what has been called the infrastructure of the sector, such as foundries, forging and stamping works, etc.

Deficiencies of this type make it necessary to search, among the great variety of mechanical goods, for certain categories of products of the type that might be manufactured without the existence of an infrastructure of basic industries. Although possibilities are limited, various examples might be cited: bearings, meteorological instruments produced in large series, various types of machine tools, standard elements for transmission of low power rotary movements, such as clutches and brakes, etc. The large volume of imports from outside the zone of articles fulfilling this requirement and the lack of regional production of them give rise to the possibility of trading them among Latin American countries, creating national specialties to serve the area which should be backed up by agreements, since the guarantee of a market is one of the essential conditions for such trade. This was suggested by Uruguay,<sup>11/</sup> a country with a modest infrastructure which has almost reached the limits of import substitution possibilities.

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<sup>11/</sup> La industria mecánica del Uruguay: un programa para su recuperación y desarrollo (E/CN.12/743).

These manufacturing activities could be classified as "technological islands" within a quite different technical environment. The economic consequences of creating such islands offer bright prospects if products selected are of the type that will have high added value, the only imported elements being raw materials and know-how.

Most of the products of mechanical industries are manufactured through a horizontal-structure production process which involves a vast series of combinations and fractioning of production, that might have characteristics of special interest for the relatively less developed countries. In this case, the reconciliation of various interests, technical as well as economic, leads to certain difficulties for determining articles to be manufactured. In theory two different aspects must be considered. On the one hand the product must incorporate characteristics required to satisfy the common needs of various markets - which individually are too small to make it worthwhile to promote activities destined to satisfy only one of them. This involves a departure from the artisan stage in favour of assembly-line production permitting prices as close as possible to those prevailing internationally. On the other hand, for a complex and costly product that involves extremely diversified techniques and technologies difficult to find in simultaneous combination in a small-size mechanical industry, what is offered is the possibility of manufacturing only a portion of the component parts. In this case as well, the requirements of combined markets must be taken into account, which means achieving technical levels of high productivity and low cost, in order that the arrangement may constitute an incentive for specialization and at the same time a solid economic base for trade. One combination as well as the other presupposes high and consistent quality of the final or intermediate products at realistic prices. In many cases quality is associated with the requisite of interchangeability, an indispensable requirement for multidirectional trade flow.

The manufacture of mechanical products within this category requires the more or less intensive and extensive participation of basic-activity subcontracting, which implies the development or strengthening of the

/mechanical infrastructure

mechanical infrastructure of the sector.<sup>12/</sup> This appears attractive for the development aims of the mechanical industries, but at the same time it is quite difficult to effect promptly, given present inertia in the economic, technical and technological fields in the relatively less developed countries and those of insufficient market in Latin America. For these and other reasons it is necessary to discard the notion that initiatives of the type indicated may arise quite spontaneously, since it is not possible to carry them out without first having a global view of the aims of various markets and then reaching agreement on the distribution of specialized tasks.

The great variety of products involving advanced technology which Latin America still imports in considerable quantities from countries possessing a very advanced mechanical industry opens vistas on the possibility of a vast process of analysis and arrangements for the distribution of specialties among various countries. This process is laborious and complicated but its practical application through sectoral agreements, although partial in some cases, would, in the case of a number of products, play an important part in the progress of the mechanical industries of the relatively less developed countries.

With respect to the rapidity with which development and distribution of specialized industries might be achieved in various countries, it must be remembered that the Latin American countries that have mechanical industries in a more advanced stage are aware of the advantages they have for continuing to diversify and produce ever more complex and specialized articles, not only for the internal market but for export as well. This fact sounds a note of alarm for the relatively less developed countries, since a continuation of this process increases disparities in conditions of competition between them and the larger countries.

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<sup>12/</sup> See La industria mecánica de Venezuela: un programa de sustitución de importaciones para su desarrollo (E/CN.12/737) and La industria mecánica de Colombia, preliminary version.

In view of the variety of structural and operational forms that the mechanical activities take, not all manufactures lend themselves in the same measure to the requirements of integration agreements. In the first place, there is a natural tendency toward geographic concentration of the different activities, despite the fact that the location of mechanical industries is in general not dependent on proximity to raw materials and energy supply. This phenomenon is due perhaps to the fact that efficiency levels are higher in the larger industrial agglomerations, due to the existence of external economies such as the skilled-labour market or complementary industrial activities. However, there are countries where this tendency has been counteracted in the national environment through the application of an industrial decentralization policy. Such a policy could also be effective in a regional environment. In the second place, decentralization conditions may be different for the different activities that make up the mechanical industry; economies of scale of operation and transport and communications requirements determine relations between the various complementary mechanical activities as well as between these and other economic activities having to do with supply.

Although it is practically impossible in the case of the mechanical industry to estimate these needs exactly or to calculate the economies that might be realized through the different possibilities that can be imagined for geographical location, it is possible to indicate in an empirical way large categories of manufactures which, within the overall field of mechanical activities, would offer more integration advantages between various Latin American countries. With respect to the relatively less developed countries, these manufactures might be the following.<sup>13/</sup>

1. The production of parts for certain types of durable consumer goods, such as home appliances. Mass consumption can be envisaged for these products, permitting large-scale production. Each one of the participating countries of the industrial community could specialize in making certain parts which would then be interchanged. Assembly operations would be the responsibility of each country.

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<sup>13/</sup> See La industria mecánica del Ecuador, preliminary version.

2. The manufacture of standard components that would have multiple use in the construction of industrial machinery and installations, such as bearings, transmission elements, valves, measuring instruments for controlling the quality of mechanical products, tools and standardized accessories for machine-tools, materials for industrial consumption, such as electrodes, etc.

3. Production in series of special machines for industries or industrial operations characterized by slow technological evolution, such as machine-tools for wood-working machinery, for the ceramics industry, water pumps, compressed air compressors, ploughs and rakes for agriculture, etc.

4. Some basic activities which might permit large-scale production, such as assembly-line casting of parts and forging and stamping, the output of which would be incorporated into final complex products manufactured in relatively more developed countries.

(b) Steel industry

The steel industry is one of the most important basic activities for the industrial development of the countries concerned. Its limited development in Latin America is due principally to the fact that it is an activity which requires great density of capital and likewise is one where economies of scale are very important. As a result of the latter factor, the steel industry can not be economical for countries that have low steel consumption and where existing conditions with respect to cost and quality of raw materials and manpower do not permit production under conditions that would facilitate exports. High prices obtaining in some Latin American countries for locally-produced steel are a brake on development of activities consuming it and make it inadvisable to install steel plants simply for import substitution.

It is estimated that toward 1975 apparent consumption of rolled steel products may reach 28 million tons of ingot equivalent; this could be satisfied by local production only under the assumption that considerable expansion would take place in existing steel plants and through the construction of new installations. This would mean a considerable effort, especially from the point of view of the magnitude of investments required.

Even if the most modern designs should be used and if a large part of the equipment should be manufactured in Latin America to lower the investment, it would still come to about 4,500 million dollars.<sup>14/</sup>

Investments of this order must be co-ordinated in such a way that expansion is achieved with the greatest efficiency and new plants and additions are set up on a scale that is advisable and endowed with the specialized equipment and technology that is essential for optimum operation. This planning of investments would show that the future development of the steel industry should take place in the environment of a common market, without overlooking possibilities, within this expansion process, for the relatively less developed countries which do not yet have an industry of this kind. If it is taken into account that scale economies are of different types in different branches of the steel industry, it can be appreciated that some branches might be installed in the relatively less developed countries and that disadvantages arising from the scale of production might be compensated by advantages of other types.<sup>15/</sup>

Rolled steel products are broadly classified as flat (plate, sheet, skelp and tinplate) and non-flat (bars, profiles and wire). Manufacture of flat products requires, with respect to non-flat, greater investments, more specialized manpower, better quality raw materials and larger-scale production in order to operate at competitive prices. Thus possibilities are better for developing manufacture of non-flat products in the relatively less developed countries.

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<sup>14/</sup> See La Economía Siderúrgica de América Latina (E/CN.12/727).

<sup>15/</sup> The documents Economies of Scale at Small Integrated Steelworks (E/CN.12/764) and Las economías de escala en plantas siderúrgicas de tamaño medio y grande y la influencia de los adelantos tecnológicos en las inversiones y costos de producción (E/CN.12/766) permit estimating fairly closely the cost of production of rolled steel products when the value of inputs at each site under consideration is known. The estimates thus made would determine the feasibility of the project.

It is estimated that in 1966 the market for non-flat products of twelve relatively less developed countries of the region <sup>16/</sup> was about 500,000 tons of ingot steel equivalent. Assuming an average annual growth rate of 7 per cent, consumption of these countries as a group would double over the next ten years. Since the preparation of projects and the installation of a steel industry would require, in the case of the relatively less developed countries, approximately the same amount of time, the following possibilities for installing a steel industry on the basis of internal demand for these products may be indicated:

i) for Central America, an integrated plant;

ii) for Ecuador, a rolling mill using imported billets which, as demand would grow, would be subject to backward integration, adding the corresponding production departments (continuous casting, steel-making and reduction);

iii) for Bolivia, a rolling mill using imported billets; and

iv) for Trinidad and Tobago, a semi-integrated plant.

On the other hand, subregional integration between Trinidad and Tobago and Jamaica, Jamaica and the Dominican Republic, <sup>17/</sup> or Trinidad and Tobago and the Dominican Republic would offer by 1975 consumption of non-flat products amounting to more than 100,000 tons. Integration of these three markets would give a combination of 200,000 tons and allow the establishment of an integrated plant.

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<sup>16/</sup> Bolivia, five Central American countries, Ecuador, Jamaica, Panama, Paraguay, Dominican Republic and Trinidad and Tobago.

<sup>17/</sup> World resource inventories give estimates of possible reserves of 50 million tons of high grade ore for the Dominican Republic.

Possibilities for exports of steel products from the relatively less developed countries of the area are slim. The only one foreseen thus far is the installation of a hematite pigiron plant for the mechanical industries utilizing ore from the Mutón deposits in Bolivia.<sup>18/</sup>

Another possibility that might be studied is that of utilizing Paraguay's iron ore deposits two of which, according to provisional estimates, offer important potentialities. If these are confirmed by geological studies, it might be possible to think in terms of exploiting one of the two sites of deposits for supplying the Argentine market. Transport costs would be lower than those Argentina is now paying to bring ore from Brazil, Chile and Peru. Another possibility is that ore from the second deposit might be subject to direct reduction, utilizing charcoal as the reducing agent. The luppen resulting from direct reduction of the laterite provide raw material for electric steel plants and if Paraguay could obtain the required power from the proposed Acaray project, it might be possible to retain part of the raw material for installing a small integrated industry that could supply the country's non-flat steel requirements, leaving a balance for export to neighbouring countries.

Carrying out the regional projects just mentioned would be a lengthy task, involving not only location of the ores but market and feasibility studies as well.

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<sup>18/</sup> It is considered that this is one of the largest reserves in the world, estimates being 45,000 million tons of ore of 50 to 62 per cent iron content.

(c) Non-ferrous metals industries

The non-ferrous metals industries (aluminum, copper, tin, lead, zinc, etc.) make up a sector that has been little studied until now, in spite of the great importance it could have in the region on the basis of large reserves of these minerals existing in Latin America.

The development of these industries is greatly dependent on the regional integration process, since advantages deriving from location and scale economies are particularly important for them and moreover because a large part of non-ferrous metallurgical products enter international trade and must compete with production in other areas. Moreover this sector is faced with the problem of substitution of products of other industrial activities for non-ferrous metals.

In the relatively less developed countries there are important non-ferrous minerals deposits that have not yet been adequately exploited. For the reasons given, it may be concluded that in this industrial sector a number of these countries may have very important development possibilities.

The aluminum industry is in an incipient stage of development in noteworthy contrast with the abundant availability of raw materials and energy resources which are basic elements for the development of the sector. The region's bauxite reserves constitute approximately half of world reserves of commercial bauxite. Moreover in almost all the countries of the area there are abundant deposits of alunites and clays. Technological research is being carried out on possibilities for utilizing these.<sup>19/</sup>

In 1962 half of the world's production of bauxite originated in Latin America. Production of alumina on the other hand accounted for less than 10 per cent of the world total and manufacture of virgin aluminum did not reach 1 per cent.

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<sup>19/</sup> See Los principales sectores de la industria latinoamericana: problemas y perspectivas (E/CN.12/718) y Perspectivas del desarrollo de la industria del aluminio primario en América Latina (ST/ECLA/Conf.23/L.26).

A plan for regional co-ordination of investments is necessary for the aluminum industry (not only in the bauxite-extraction stage but also in production of alumina and manufacture of metallic aluminum), in order to avoid fragmentation of the limited total Latin American market that would result from small-scale, uneconomic national plants where high costs of production would limit consumption and discourage exports to world markets. Through a sectoral agreement it would be possible to co-ordinate investments in order to take better advantage of the region's natural resources and the technological advances achieved in the more industrialized countries, with a view to achieving active participation in world markets.

Among the relatively less developed countries those that are in a better position are those that have bauxite deposits (Jamaica, the Dominican Republic, Guayana and Central America) or those that have abundant hydroelectric resources. Alumina production in Jamaica could be expanded and the installation of an alumina plant in the Dominican Republic would appear viable, providing it would be possible to count on the Mexican and Venezuelan markets, or either one of them. Guayana seems to be in a similar position. Likewise Central America is considering the possibility of installing an integrated primary aluminum plant.

Latin America has the largest copper reserves in the world. In spite of this, production of primary copper is only about 20 per cent of the world total. In Pacific coast countries there are especially rich deposits that can be economically exploited. However there is a strong tendency to develop the corresponding transforming industries in the Atlantic countries which have less favourable deposits.<sup>20/</sup>

Tin, and to a certain extent, zinc and lead are in a similar position with respect to non-optimum exploitation of the natural resources existing in the region.

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<sup>20/</sup> See Influencia de las economías de escala en la industria de transformación del cobre y sus aleaciones (E/CN.12/765).

(d) Chemical industries

The development of the chemical industry in Latin America has been rapid in recent years. In spite of this, the region had to import almost 1,200 million dollars worth of chemical products in 1964.<sup>21/</sup>

The creation of an integrated market in Latin America would open up new prospects for the development of this sector by permitting better advantage to be taken of scale economies, more rational location of large production units and better utilization of installed capacity.

Within a very general and provisional analysis, it is possible to classify in three broad categories the chemical industries that might be established in the relatively less developed countries with possibilities for export to the region and, in certain cases, to international markets:

i) Chemical industries that can take advantage of mineral raw materials that do not exist in other countries of the area, such as titanium, bauxite, etc.;

ii) Industries manufacturing chemical products whose elaboration does not necessarily require continuity of processing at the site of the raw materials. This would have to do with certain intermediary products or specialties that could be derived either from local raw materials (mineral or vegetable) or else imported from the area. This is the case with medicinal chemical products, materials for dyeing, tanning or colouring, etc.;

iii) Industries producing chemicals for final use, whether common types for internal use or for substituting present imports or highly specialized products, production of which has not yet been attempted in the area.

This theoretical scheme can be contemplated only in terms that are compatible with the general development planning of such countries and likewise of the other Latin American countries. It could be particularly significant for the relatively less developed countries that border on countries that are more developed industrially.<sup>22/</sup>

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<sup>21/</sup> See La industria química latinoamericana en 1962-64 (E/CN.12/756). The annual rate for the period 1962-64 was 11.7 per cent.

<sup>22/</sup> Bolivia and Paraguay with respect to Argentina and Brazil. Central America, Guayana, Trinidad and Tobago, Barbados, the Dominican Republic, Panama, Haiti, etc. with respect to Mexico, Venezuela and Brazil, etc.

According to the development plans of certain Latin American countries, particularly those that are more developed industrially, there is a very notable trend toward vertical integration of the chemical industries, which are directed toward national markets; it would be difficult to change this tendency in the short or medium run, even in cases where there are complementation agreements such as those already signed by some countries of the area. This situation must be taken into account in the preparation of the industrial programmes of the relatively less developed countries. It would be necessary to make a detailed survey of the natural resources about which there is already some superficial knowledge (petroleum and natural gas in Bolivia and Honduras, sulphur in Ecuador, salt and limestone in Central America, vegetable and agricultural resources in Paraguay and Guyana, etc.) and of other mineral and vegetable resources that might provide inputs for the first type of chemical industries mentioned above.

Although the second and third groups of industries mentioned - intermediary and specialized chemical products - do not depend on natural resource potential, on the other hand they are dependent on the size and future dynamism of markets. Production of intermediary chemical products, such as plastics and synthetic fibres - which has been started in Central America for example - which can be gotten under way with a low level of installed capacity and on the basis of raw materials imported at low prices (monomeres) - require, on the other hand, growing dynamism of demand in order to justify the subsequent backward and forward integration of processes. Without this integration, the balance of payments would be adversely affected and producers could not face the competition they would necessarily meet not only with respect to prices but substitution of similar products as well.

Hence in Latin American countries whose markets are relatively small, prospects for the development of certain chemical industries depend to a large extent on possibilities for export. This determines the need to channel market research for intermediary and specialized chemical products with a view toward possible production in less

/developed countries,

developed countries, not only in the case of products that are at present imported into Latin America but also for chemical products potential demand for which will depend on the establishment of new activities or new processes in countries of the zone (products used in the rubber, textile, steel, mining, agriculture, pharmaceutical and medicinal industries, etc.). If possibilities for exporting chemical production are seen as a variable that conditions the viability of projects - especially for those activities in which the size of scale prejudices their feasibility when designed for the national market - this variable should be thought of in terms of the world and not only the zonal market. In the light of the most recent information, there have already been signs of this in countries such as Chile, Venezuela, Colombia and Trinidad and Tobago.<sup>23/</sup> Taking into consideration the development achieved in the technological field under a programme of frank world competition, the plants with best prospects would be those with maximum capacity, the most modern technological processes and rational and proven marketing structure.

Whatever type of chemical production appears to be the most feasible for carrying out in the less developed countries, taking into account probable advantages deriving from regional or sub-regional integration - levels of scale, entrepreneurial efficiency and specialization - it should be emphasized that in most cases it is necessary to start on the basis of a rational infrastructure. To illustrate, Bolivia's natural gas is in the middle of the forest and its industrialization, in situ or at other locations that might be considered will require extensive basic infrastructure provision of which would need to be fully justified. Sulphur, which necessarily would have to be exported, due to the geographical location of the deposits, poses the problem of the need for means of transport that will not have unfavourable repercussions on costs. Industries based on salt and limestone would not only have to solve problems related

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<sup>23/</sup> Large-scale projects for products such as aromatics, ammonium, fertilizers, etc. (See La oferta de fertilizantes en América Latina (E/CN.12/761)).

to transport of raw materials to the plants producing caustic soda, but likewise require low-cost power and the development of other industrial activities which could absorb by-products such as chlorine.<sup>24/</sup> Even in the case of plants producing intermediary products - plastics, fibers, etc. which could be located near consumption centers, basic infrastructure will be required, not only for receiving raw materials but likewise for marketing products within and without the national market.

Moreover, owing to the magnitude of investment which the chemical industries tend to require - a factor which would be accentuated with the installation of the necessary infrastructure - the relatively less developed countries could hardly attempt to develop these industries locally without recurring to external financial assistance. This might be forthcoming through integration of capital from more developed and industrially more experienced countries of the area, either public capital (national petroleum enterprises that wish to develop activities in the petrochemical field), private, or mixed. Even if such capital should be forthcoming, there would be a dependency relationship with the international enterprises deriving from the need for know-how and technical assistance. This dependence could be compensated through certain advantages that products manufactured in the less developed countries might have in trade in the world market, taking into consideration that these enterprises have international trade organizations for distribution of the products in question.

(e) Pulp and paper industry

The pulp and paper industry has grown rapidly in the region in the last twenty years. It is estimated that demand for paper and paperboard will reach 5 million tons by 1970 and 7 million by 1975. In order to satisfy this growing demand it will be necessary to increase installed capacity considerably.<sup>25/</sup>

24/ See La industria de álcalis sódicos en América Latina (E/CN.12/761).

25/ Among the numerous studies carried out by ECLA in the field, the following may be mentioned: El papel y la celulosa en América Latina (E/CN.12/570/Rev.3); Economics of pulp and paper manufacture under average Latin American conditions (ECLA/BTAO/FAO PREP CONS/PAPER II/1); Programming Data and Criteria for the Pulp and Paper Industry (ST/ECLA/Conf.11/L.19); Aspectos económicos y condiciones de operación de pequeñas plantas de celulosa y papel elegido en Argentina y Brasil (ECLA/BTAO/FAO/ PREP CONS/PAPER II/2); y Aspectos económicos de modernización y expansión de pequeñas plantas de celulosa y papel, con especial énfasis en los casos de Argentina y Brasil (ECLA/BTAO/FAO PREP CONS/PAPER II/3).

Latin America has ample fiber resources but they are used to a small extent in the manufacture of pulps and papers. Most of the forests in the region have mixed tropical or semi-tropical broadleaf species which are only beginning to be exploited for the pulp and paper industry. Since most of the relatively less developed countries have broadleaf species forests or bagasse resources, it is necessary to step up technological research efforts already under way in order to be able to take better advantage of these resources.

The Latin American common market could offer these countries the opportunity to establish plants for the manufacture of certain types of special papers.

Likewise it is necessary to remember that in the pulp and paper industry scale economies are very important; therefore it would not be advisable to have a proliferation of plants throughout the region.

Provisional estimates indicate the possibility of exploiting pine resources in Central America in order to obtain long-fiber pulp which would be used in manufacturing paperboard linings of corrugated boxes, mainly those for packing bananas for export. In Ecuador there are abundant short-fiber resources, especially bagasse and broadleaf species, which would permit manufacture of medium corrugated paperboard, likewise for corrugated boxes. Complementation of these manufactures would make it possible to take advantage of scale economies.

Other proposals that should be very carefully studied are those relating to programmes for artificial plantations of pines in some zones of the region (Paraguay, Central America, Uruguay and Venezuela). If the factibility studies for these projects should be favourable, their realization would contribute toward diminishing the present deficit in the region with respect to resources required for production of long-fiber pulp.

(f) Textile industry

The Latin American textile industry has grown rather slowly in recent years, the exception being those countries where the principal dynamic factor in its growth - the import substitution process - is still going on.

/The textile

The textile sector represents close to 10 per cent of the value of production, of the manufacturing industry in Latin America, 16 per cent of personnel employed and 13 per cent of wages paid. Within this framework, the relatively less developed countries occupy very varying positions. In Bolivia the textile sector represents 20 per cent of the value of production of industry as a whole and 23 per cent of personnel employed. Ecuador and Paraguay are at approximately the same level with respect to gross value of production, but Paraguay shows only 8.5 per cent of personnel employed against more than 25 per cent in Ecuador. Wages and salaries represent 12 and 20 per cent respectively. This difference in the structure of the indices reflects the greater efficiency at which the Paraguayan textile industry operates and at the same time the higher level of remuneration of its workers. The textile industry of the five Central American countries is of less importance, representing scarcely 3.8 per cent of the gross value of manufacturing production and absorbing 5.3 per cent of personnel employed in manufacturing activities.<sup>26/</sup> These three countries (Bolivia, Ecuador and Paraguay), and the five Central American (Guatemala, El Salvador, Honduras, Nicaragua and Costa Rica) together have installed capacity in the textile industry which amounts to only a little over 3.5 per cent of installed capacity in the region as a whole, whereas their population represents 10.5 per cent of total population. Internal production of these countries varies between 50 and 70 per cent of consumption, whereas in the more developed Latin American countries the level of self-sufficiency is over 95 per cent, with the exception of Venezuela where it is 80 per cent. If historical conditions which have made the textile industry one of the sectors that have impelled the industrial process forward in its initial stages continue to be valid - and there does not appear to be any new element that would contradict this possibility - then it will be necessary, for achieving the aims of integration policies, to take into account the urgency of providing these countries with the conditions that are necessary for

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<sup>26/</sup> See La industria textil en América Latina, Vol. VI: Bolivia, Vol. VII: Paraguay, Vol. IX: Ecuador (United Nations publications, Sales N° 64 II.C/Mim.4, 6 and 8) and Joint Programming Mission for Central America, Programa de desarrollo de la industria textil de hilado y tejidos planos de algodón, Guatemala, October 1964.

substitution of imports of manufactured textile products (with the exception of those which, due to their special characteristics, can not be produced economically by local industry). In the other Latin American countries these latter products make up between 2 and 5 per cent of total consumption.

It may be observed likewise that in the countries considered here as relatively less developed there is a general lack of raw materials. Thus one of the facilities that would have to be provided to them would be imports of the raw materials they require, at world market prices and free of customs duties and other charges.

A factor which must be considered carefully is the operating conditions prevailing for the textile industry in the relatively less developed countries, in comparison with those in the other countries. The positions of Bolivia, Ecuador, and Paraguay vary somewhat, depending on the type of fibers or the type of activity (spinning or weaving) but in general they are considerably inferior to those of the other Latin American countries.<sup>27/</sup>

Since the textile industry in these countries is one of the sectors that will accelerate the industrialization process in its initial stages, they should all expand this activity until total internal demand is satisfied and exportable surpluses have become a reality. Given deficient operating conditions, the way to do this would be to give preferential treatment in customs policies to the relatively less developed countries, within a programme that would be established a priori for restructuring the industry with a view to improving in the short and medium run, its operating conditions and ability to compete in the zonal market. In this way, specialization would produce trade in textile products in the region that would benefit all countries, since each one would devote itself to the production of those goods that it could produce most advantageously. Such specialization would take into account individual conditions of climate, culture, customs, entrepreneurial ability, etc.

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<sup>27/</sup> See La industria textil en América Latina, Vols. I to XI and La industria textil en América Latina, Informe Regional, provisional version.

Thus, for example, Bolivia has an advantage with respect to production of raw materials: the existence, although not on a large scale, of the so-called "fine hairs" pelos finos (llama and alpaca wools) which bring high prices on the international markets, particularly in Europe. In this case the advantage should be exploited through development of an export industry that would be an incentive for restructuring factories dedicated to manufacturing this type of hairs. Blends should be technically studied, since these raw materials are at present used in an irrational way, being made up in coarse fabrics for local consumption.

Paraguay is in a favourable position for cotton manufactures, not only with respect to the supply of raw material, being an exporter of cotton, but also in operating conditions of the industry. The indices of efficiency here are higher than in most of the more developed countries of the zone. On the other hand, given the nature of Paraguayan production in this sector, which is concentrated on coarse fabrics, it would even be reasonable to promote exports to more developed countries of the zone, where little by little production of such fabrics is becoming less economical. In exchange Paraguay could import from them fine weaves that require more complex fabrication and superior-quality raw materials it does not produce. Paraguay would benefit moreover from integration in the hard-fibers sector, since, aside from Brazil and Mexico, it is the only Latin American country that has possibilities for achieving an exportable surplus of sisal and similar fibers. If this possibility should be confirmed, the Paraguayan Government could carry out a project designed to supply the national market and achieve exports of a significant part of her production of fabrics and other hard-fiber manufactures.

The programme for restructuring the textile industry of Latin America which was suggested in an ECLA study <sup>28/</sup> would be based on technical and financial assistance provided by international agencies working on regional economic development and integration. This programme should give priority to the relatively less developed countries and should be able to count on the support, in terms of either financial or human resources, of the interested governments.

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28/ See La industria textil en América Latina, Informe Regional, provisional version.

**VI. EXPERIENCE IN THE LATIN AMERICAN FREE TRADE  
ASSOCIATION AND IN THE CENTRAL  
AMERICAN COMMON MARKET**

**1. The ALALC and the relatively less  
developed countries**

The problems that the relatively less developed countries face in the Latin American economic integration process have been recognized in various studies and proposals made in connexion with the establishment of a Latin American common market, as well as in the Montevideo Treaty. The preamble to the latter, states that economic development should be attained "in accordance with norms which take due account of the interests of each and all and which make proper compensation, by means of appropriate measures, for the special situation of countries which are at a relatively less-advanced stage of economic development".\*

With this aim in view, chapter VIII (article 32) provides that the Contracting Parties will endeavour to create conditions favourable to the growth of these countries and mentions various measures for stimulating the installation or expansion in them of certain productive activities. Such measures are similar to those that have been proposed here, although of much more limited scope, i.e.: trade and technical and financial assistance measures. They permit one Contracting Party to concede to another that is economically relatively less developed, "as long as necessary and as a temporary measure", advantages which may not be extended to the other Contracting Parties. It is foreseen in them that a relatively less developed country may be authorized to carry out the programme of reduction of import charges and other restrictions under more favourable conditions especially agreed upon, to apply temporarily measures for the protection of national production of products included in the liberation programme "which are of vital importance to its economic development" or to take steps to correct disequilibria in its balance of payments. Likewise the

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\* In the absence of official English versions of the Montevideo Treaty and the resolutions of the organs of the ALALC, the corresponding English translations appearing in quotations in this document are unofficial.

Contracting Parties commit themselves to "make collective arrangements in favour of a Contracting Party at a relatively less-advanced stage of economic development within the Area with respect to the support and promotion, both inside and outside the Area, of financial or technical measures designed to bring about the expansion of existing productive activities or to encourage new activities, this applies particularly to those intended for the industrialization of its raw materials" and "promote or support, as the case may be, special technical assistance programmes for one or more Contracting Parties, intended to raise, in countries at a relatively less advanced stage of economic development within the Area, productivity levels in specific production sectors". These provisions of the Montevideo Treaty have been quoted at length since, in addition to referring to measures of a nature basically similar to those that are proposed in the present document, they show the focus in favour of the relatively less developed countries that has in general prevailed in the various resolutions adopted in the ALALC. This position has been more frequently evidenced in proposals, commitments and declarations of intention than it has in action taken.

The Montevideo Treaty likewise refers to the principle of reciprocity, stipulating that no country may derive persistent advantages greater than those which it grants to others. However this principle is expressed exclusively from the standpoint of trade, that is of balance or reciprocity in concessions granted in the process of gradual liberation of intra-zonal trade, as measured in terms of products incorporated into the liberation programme or, as indicated in article 13, in terms of expectations of such trade flows.<sup>1/</sup>

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<sup>1/</sup> The terms "reciprocity" and "principle of reciprocity" continue to be used within the ALALC exclusively in the sense of development of intra-zonal trade in relation to the programme of liberation. Thus it was in this sense that resolutions 93 (II) charged the Standing Executive Committee with studying procedures that might facilitate the application of such principle, and resolution 129 (V) charged the Committee with studying the situation of the countries that request the application of the measures foreseen in articles 11 and 12 of the Montevideo Treaty "for the purpose of correcting deficits in their trade with the zone in products included in the liberation programme". In the same sense, resolution 163 (VI) empowers the Permanent Executive Committee to adopt measures it deems advisable for facilitating the correction of situations that present themselves, taking into account the results of the studies referred to in resolution 129 (V).

/Therefore the

Therefore the measures that the Treaty establishes in favour of the relatively less developed countries are related only indirectly to the principle of reciprocity as it is conceived in that instrument. Although the resolutions of the ALALC foresee a process of evolution, in the sense of broadening the significance of the principle of reciprocity and considerable progress has been made in this body in recognizing and analyzing problems posed for the less developed countries and in adopting measures that are more adequate than those foreseen in the Treaty, the practical application of the principle of reciprocity within the ALALC has met with serious difficulties, owing to the lack of an adequate formulation of this principle.

In fact application of the measures contemplated in article 32 of the Montevideo Treaty has been limited to granting concessions not extensive to the other Contracting Parties for products originating in the members of the ALALC that are recognized as being relatively less developed countries (Ecuador and Paraguay). Experience has shown that such concessions, despite their preferential nature, have not been very effective in stimulating the establishment or expansion of industries in the countries favoured. This is attributable to two main factors: On the one hand, the concessions have the same defects common to most of those agreed upon through the mechanism of gradual liberation of trade established through the Montevideo Treaty. With some exceptions, they are quite limited in scope, since they do not cover the whole range or a substantial part of the products of the industries concerned and frequently only a few countries have authorized concessions for the same product. Moreover, most of the special concessions in favour of the relatively less developed countries refer to primary products or those that undergo very little processing and only a relatively limited number of manufactured products have been favoured. Moreover the concession frequently does not signify total liberation but only partial reduction of charges or the maintenance of certain quantitative or other restrictions. In summary, with few exceptions, these preferential concessions are far from offering the relatively less developed countries ample or substantial access to the regional market for various present or potential production lines or for at least an appreciable part of the products of

/different industries.

different industries. In other words, from the standpoint of opening up the regional market for present or potential industrial products of the relatively less developed countries the concessions that the latter have received in the ALALC may in general be considered to be insufficient. On the other hand, the lack of effective decisions in the relatively less developed countries, and above all the lack of technical and financial resources of these countries, have made it difficult or impossible to take advantage of the concessions granted, even when the latter were adequate for opening up the market. It has been stated repeatedly, not only in the ALALC but also in various documents of this secretariat and of other organs, that trade measures, particularly the free access to the regional market, while essential will by no means be sufficient for promoting the establishment or expansion in the relatively less developed countries of industries oriented toward this market.

These limitations in the scope of the special concessions granted in the ALALC to the relatively less developed countries and in the ability of these countries to take adequate advantage of the opportunities offered to them were soon recognized in that body. So much so that working groups were set up, various studies made and a number of resolutions adopted which contemplate additional regulations and commitments for the effective or better application of the special treatment authorized by chapter VIII, thus aiding the growth of the economies of the relatively less developed countries.

None of this has yet yielded practical and meaningful results. Despite considerable progress in appreciating the problems of these countries, the good will of the governments, and the intense work carried out by the secretariat of the ALALC and by other bodies there still remain the fundamental obstacles that the measures adopted continue to be of limited scope, they do not comprise an integral and systematic programme and, above all, there is a lack of adequate operational procedures for carrying them out.

Thus, as early as their first session, the Contracting Parties established, in resolution 17, "uniform criteria tending to ensure the most adequate possible application of the provisions of chapter VIII of the Treaty".

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In the same resolution it is provided that the Standing Executive Committee should propose to the Conference any modification in such criteria that might appear to be necessary for the more adequate application of the provisions of chapter VIII of the Treaty. For this purpose a working group was set up within the Committee on Economic Affairs the report of which was considered by the Contracting Parties at the second session. Thus resolution 62 was adopted in which it is pointed out that "the balanced and harmonious development of the countries making up the Latin American Free Trade Association is one of the fundamental aims of the Treaty" and "that such aims may be achieved only by closing the gaps that exist at present between the countries of the area", for which purpose "it is necessary to apply the special treatment authorized in article 32 in such a way that it may favour the establishment or expansion of productive activities in the relatively less developed countries". It was concluded in this resolution that the Conference, "notwithstanding its aim of attaining the approval of practical and effective norms for the better application of chapter VIII of the Treaty, has not completely achieved its goal, partly because the heavy burden of work has not permitted as careful a study of the points on the agenda as necessary" and charged the Standing Executive Committee with the task of continuing to study measures that would be most adequate and advisable in relation to chapter VIII and, on the basis of such study, with preparing a draft resolution for the third session.

This draft was taken up in resolution 74 (III), of November 1963, one of the most important adopted within the ALALC in relation to the relatively less developed countries. The aim of the resolution was to solve the causes of manifest discontent on the part of Ecuador and Paraguay, which became more acute during 1963 owing to the fact that these countries considered that they were not obtaining the benefits they had expected

/from the

from the Montevideo Treaty.<sup>2/</sup> The resolution approved a "Plan of Operations and Special Measures that the Contracting Parties may carry out in favour of the Economically Relatively Less Developed Countries of the Zone" that envisaged special operations and measures. It established that when an economically relatively less developed country wishes to adhere to the Plan, it will submit for study and approval of the Committee, a programme of special operations which would allow it to accelerate its rhythm of economic growth through financial aid and technical assistance. Both forms of aid would be supplied by other Contracting Parties, in accordance with their possibilities and the needs of each one of the relatively less developed countries.

Financial assistance would be granted through loans or special operations which would consist mainly of: (a) supply of machinery, equipment, installations, tools, etc., for the execution of infrastructural works and for training workshops and agricultural schools devoted to training specialized workers; (b) establishment of lines of development credit for financing imports from the zone of seeds, insecticides, fertilizers, raw materials or other goods destined for basic productive activities in the relatively less developed countries; and (c) facilitation of financial agreements for the purpose of setting up a fund through monetary contributions that would complement resources of the development banks of these countries. The technical assistance would consist principally of: (a) supplying experts, technicians and professors to work in the beneficiary countries; (b) granting fellowships for training of technicians skilled workers and

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<sup>2/</sup> The reasons for such discontent were emphasized in reports of the Ministry of Trade of Ecuador (September 1963) and the Central Bank of Paraguay on the experience in 1962. Ecuador's report pointed out that while its imports from the zone had increased considerably by virtue of having authorized concessions for no less than 1,701 articles, its exports to the zone were stagnating, since it had received special concessions for only 323 products, many of which were of little importance, and that it had not received any assistance at all from the principal countries of the ALALC, especially with respect to the establishment of new industries. The report of the Central Bank of Paraguay, on the other hand, took the stand that the good intentions of the participating countries in favour of the relatively less developed had not been translated into concrete measures.

administrators of firms in the less developed countries in professional and technical training centres of the other Contracting Parties; (c) preparing and carrying out specific projects such as highly-specialized engineering works, animal and vegetable sanitation programmes, irrigation works, etc.; and (d) studying markets and identifying industries for the purposes of integration, in order to promote their location within the relatively less developed countries.

The "special measures" consist of authorizing the Standing Executive Committee to: (a) study and approve joint recommendations to international credit institutions such as the Inter-American Development Bank, the International Bank for Reconstruction and Development, and the Alliance for Progress in support of requests for financial and technical aid presented to such bodies by the less developed countries in order to obtain financing for expansion of existing productive activities or in order to stimulate new ones, including infrastructural works; (b) study and present for the consideration of the Contracting Parties requests made by the relatively less developed countries for the maintenance of margins of preference for a specified time with respect to one or more products mentioned in their requests and for which exclusive concessions have been made to those countries; (c) prepare studies and, on the basis of them, to take measures or prepare draft resolutions that the less developed countries request for the application of the other provisions contemplated in article 32 of the Treaty. The studies should pay particular attention to the identification of industries that might be located in such countries to produce export goods destined principally to supply the zonal market and to the régime for

/advance reduction

advance reduction of import charges that may permit the installation and ensure the operation of such industries.<sup>3/</sup>

As may be appreciated, this resolution opens up quite a broad field of possibilities for technical and financial assistance in favour of the relatively less developed countries in the ALALC and offers prospects for adequate access to the regional market, through advance reduction of import charges for the products of export industries that may be established in those countries. However, in the three years that have passed since it was adopted, its application has been very limited, especially with respect to the plan of special operations, since neither Paraguay nor Ecuador have presented programmes for adhering to it. Likewise there have not been any joint recommendations to international credit institutions in support of requests for technical and financial assistance presented by the less developed countries, nor is it known whether or not these countries have requested such support. While it is true that the Contracting Parties committed themselves in resolutions 53 and 111 not to reduce the margins of preference resulting from the negotiations (and not to reduce them for Paraguay and Ecuador in relation to the other countries of the zone) when such reduction would affect the usefulness of the concessions, this commitment has not been fully complied with.

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3/ On the other hand, resolution 71 (III) recognized "that in order to achieve the balanced and harmonious economic development of the zone it is necessary to adopt joint measures in favour of Colombia, Chile, Peru and Uruguay which may stimulate the establishment or expansion of specific productive activities for which the respective national market would be too small or the development of which would be of interest to the zone". This resolution does not indicate what these measures would be, but is limited to declaring: (a) "the firm intention of the Contracting Parties to ensure the effective participation, through just distribution of benefits, of the countries mentioned in the preceding article, as well as of those already qualified as being economically relatively less developed, in complementation agreements and any other type of multinational arrangements designed to initiate or expand zonal activities"; and (b) that "the Contracting Parties estimate that within the framework of the Treaty it is possible to adopt adequate joint measures for the execution of the specific programme for installation or expansion of productive activities of the countries referred to in article one, the viability of which, in accordance with the information and draft projects presented, would be recognized by the Committee. The Contracting Parties likewise commit themselves to do everything possible in order to facilitate such execution".

Concerning the identification of industries, this task was entrusted to the Advisory Commission on Industrial Development (CADI) which in its first meeting (May 1964) recommended that the executive secretariat of the ALALC set up four study groups to prepare reports on certain aspects of integration, among them "the examination of means that would ensure the active and immediate participation of the economically relatively less developed countries in the industrial integration process of the zone, according to the terms of resolution 74 (III), and the identification of industries of zonal scope that might be located in their territories". Each one of these groups would be made up of at least four experts. The executive secretariat would be in charge of the work of the groups and provide at least one specialized officer from its staff for each group. The participation of other institutions, particularly the ECLA, the CIES and the IDB would be requested.

The Standing Executive Committee included these recommendations of the CADI in its resolution 50 of July 1964. The Study Group on Economically Relatively Less Developed Countries was set up, including specialists from Ecuador and Paraguay, the secretariat of the ALALC, the IDB and the representation of the ECLA at the ALALC. The Group met in October 1964 and prepared its methodology, which was approved by the Permanent Executive Committee the following month. It included the following criteria and guidelines for preparation of the Group's reports on Ecuador and Paraguay:

(a) Identification of industries of zonal scope: For the identification of industries of this type, which might be located in the relatively less developed countries, it would be necessary to take into account, among other things, the following factors: availability of raw materials and intermediary products, traditional exports to the zone, the cost of labour imports from the other countries of the zone, industries existing in the country, and projects and investment proposals not yet carried out, those under way, or those being studied.

/(b) Measures

(b) Measures that might ensure more active and rapid participation of the relatively less developed countries in the integration process: Analysis of the fiscal, tax, exchange, customs and other measures that it would be advisable to take, not only in Ecuador and Paraguay but also in the other countries of the zone, in order to make more effective use of the concessions granted to the former countries and achieve their more active participation in the integration process.

In these reports, special attention would be paid to present and potential exports of these countries to the rest of the ALALC. Concerning present exports, products which have already demonstrated their ability to compete in one or more countries of the zone would be investigated. Their potential would be studied on the basis of installed capacity and concrete projects for its expansion, for the creation of new firms, or for more advanced processing. In the case of potential exports, consideration would be given to projects being carried out and obstacles presented to some of them (lack of investment or working capital, technological problems, entrepreneurial or labour deficiencies, insufficient supply of raw materials or power; competition from other countries, etc.). Study would likewise be given to prospects for reducing transport costs; the incidence of such costs would be examined, along with other aspects related to distribution in countries of the ALALC.

In order to proceed with such reports, missions were organized for Ecuador and Paraguay, made up of officials of the executive secretariat of the ALALC, the IDB, and the ECLA. The missions visited the countries during 1965 and prepared preliminary versions of their reports. After submission to the governments of the respective countries for comments

/and observations,

and observations, the reports were revised in the first semester of 1966 and submitted to the Standing Executive Committee.<sup>4/</sup>

These reports examined productive sectors that appear to be the most promising from the standpoint of generating new or increased exports to the zone, either through the establishment of new industries or the

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<sup>4/</sup> Other material that is relevant to the subject of balanced regional development and treatment in favour of the relatively less developed countries is contained in resolution 100 (IV), where it is stated that "the fundamental aim of the Montevideo Treaty is to promote, in a harmonious way, the economic and social development of the Contracting Parties through progressive complementation and integration of their economies". For this purpose, "in addition to carrying out the Liberation Programme of the Treaty, the Contracting Parties will put into effect, as soon as possible, measures designed to: (1) achieve equitable distribution of the results of the integration process; and (2) ensure equitable conditions of competition". Article 4 of the resolution indicates the bases to be taken into account in the first stage of the work leading to the formulation of a zonal policy for industrial development, stating, in part, "in order to achieve equitable distribution of the benefits of integration and given the different structures and levels of development of the countries of the ALALC, it is necessary that industrial location be carried out through programming and co-ordination"; that "in order to accelerate the economic growth of the countries qualified as economically relatively less developed and those mentioned in resolution 71 (III) of the Conference (countries qualified as having an insufficient market), the search for and assignment to these countries of concrete projects for industries of a zonal nature should be stimulated"; that "programmed location of industries of a zonal nature in specified countries implies the adoption of a common policy in the production sector under consideration", and that "the location of industries of a zonal nature should be based on criteria of economy and/or productivity, contemplating in addition the need for all Contracting Parties, through their participation in such industries, to obtain fair benefits from integration". Article 5 indicates, among the criteria to which the studies and tasks related to regional industrial development would be subject, that "within the systematic programme of sectoral studies oriented toward their regional integration, priorities will be established in such a way that in so far as possible they may take into account the expectations of all Contracting Parties, particularly those that are economically relatively less developed and those mentioned in resolution 71 (III) of the Conference".

Aside from this, there are various other resolutions (e.g. 72 (III), 73 (III), 99 (IV), 105 (IV), 106 (IV) and 108 (IV)) that contain general provisions or specific measures in favour of relatively less developed countries.

/expansion and

expansion and modernization of those already existing. (In the case of Ecuador careful attention was given to the question of development of industries for substituting imports, for which purpose it was recommended that this country be authorized to protect certain national productive activities the establishment of which can be feasible only if it can count on the national market as a basis for future expansion toward zonal markets.) Among the measures suggested for achieving these objectives is that permitting countries to obtain adequate conditions of access to the regional market for products of their industries, whether through the granting of new preferences or the expansion of existing ones. Such action should be designed not only to increase margins of preferences but also to include within the special advantages additional products of a productive sector, in such a way that access benefits all of its branches and not only some of them. In some cases it was also suggested that technical assistance should be provided for improving technology or determining feasibility of certain activities, or that financial assistance be made available for certain projects of fair scope. However, these recommendations play a secondary part in comparison with obtention of access to zonal markets for the respective products. It is considered that the latter would be a prior and indispensable condition for the requirement of technical and financial co-operation. The reports did not consider concrete measures for the improvement of infrastructure. They did deal however with certain internal measures that the relatively less developed countries themselves should take, particularly those relating to development of exports.

As pointed out in the reports themselves, these are only a first step in the work that must be done by the Study Group on Economically Relatively Less Developed Countries. In many cases the reports covered primary and partial aspects which require complementary studies, particularly: (a) those relating to identification and location of other industries of zonal scope which could have a dynamic effect and mean new production processes that would not necessarily depend on processing of traditional raw materials and, (b) those that might permit the rapid growth of the economy of such countries, improvement of the infrastructure, market research, etc. Most of the industries considered in these reports are relatively simple, involving processing of national raw materials such as bananas and other fruits, cacao, woods, vegetable fibres, leather, oil seeds, etc.

/In October

In October 1966, after considering the report of the working group of the Standing Executive Committee on the conclusions of the Study Group on Economically Relatively Less Developed Countries, which included the two reports just referred to, the Committee agreed (resolution 106) that the Group should be permanently established and continue the task begun, bringing up to date the information gathered and expanding the field of its investigation, in order to complete the studies undertaken and determine which industries might be established in the less developed countries. It was also agreed that the executive secretariat of the ALALC should prepare a report that would be presented to the Standing Executive Committee in the course of 1967 and in which bases and mechanisms necessary for formulating agreements that might ensure effective participation of such countries in the regional market would be established. For this purpose the secretariat of the ALALC could request the collaboration of experts from the organizations serving as advisors to the Association (ECLA, IA-ECOSOC and IDB).

At the same meeting in which resolution 106 was adopted, the Standing Executive Committee agreed "to request the collaboration of the ECLA and the IDB for the analysis of activities selected by the study group <sup>5/</sup> in order to evaluate possibilities for their establishment in Ecuador and Paraguay and to programme the necessary steps for achieving the proposed aims" and "request the IDB to give early and priority attention to requests that Ecuador and Paraguay might formulate for the purpose of taking advantage of the mechanisms and procedures of the Pre-investment Fund for Latin American Integration".

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<sup>5/</sup> These activities correspond to products for which Ecuador and Paraguay request that the zonal market be opened to them, in accordance with the two reports prepared for these countries by the ALALC/IDB/ECLA missions and are annexed to document ALALC C.VI/dc.20, presented by the Standing Executive Committee to the Sixth Conference of the Contracting Parties. In the case of Ecuador they refer to processed banana and cacao products, pharmaceutical goods, manufactures of wood, toquilla palm straw or mocora palm straw, preserved fruits, dry cell batteries, pyrethrum extract, nylon and other products; in that of Paraguay they include various manufactures of wood, china grass fabrics, hemp, jute, sisal, bags, industrial and edible oils, soaps, fatty acids and alcohols, detergents, cotton fibres and fabrics, clothing, tanned leathers and leather articles, etc.

The Committee likewise agreed to present for the consideration of the Sixth Conference the relevant conclusions of the study group on relatively less developed countries, recommending that they be given priority treatment in order to adopt concrete measures for multilateral collaboration for the benefit of those countries.<sup>6/</sup> Resolution 57 (VI) of the ALALC on "basic policy directives of the Association with respect to the economically relatively less developed countries" follows this line. In its considerations, it points out "that for the purpose of undertaking vigorous action in the ALALC leading toward acceleration of compliance with the aims of chapter VIII of the Treaty and the resolutions adopted by the organs of the Association in favour of the economically relatively less developed countries, it is indispensable to systematize and co-ordinate efforts in such a way that these provisions may have positive results; that one of the principal conditions required for the economic development of these countries must be the existence of sufficiently broad markets for their products as well as the availability of adequate resources for financing industrial production; and that although concessions received within the framework of the Association permit broadening the markets, each beneficiary country must be responsible for the complex task of organizing its production and effecting its exports".

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<sup>6/</sup> Although in this document the Committee recommended to the Conference the adoption of most of the measures suggested by the Working Group, it turned down or modified the presentation of others which had been objected to by some countries. This is the case of the reference to possible reservations of markets in favour of the less developed countries for certain types of production that might be located in them. It was considered that this would be incompatible with the system of market economies that prevails in the member countries of the ALALC. These references were replaced by "an adequate and effective participation in the markets" on the part of those countries in such productive activities. Despite strong objections, the Committee maintained the suggestion of the study group that rules of origin be established through which, in the case of the relatively less developed countries, less rigorous standards of quality than those adopted in general for the zone would apply, or else these countries would be permitted to defer or gradually achieve compliance with the standards set up for products of prime interest to them. This suggestion was not accepted by the Conference.

These directives refer to conditions concerning opening up of markets, to the application of safeguard clauses and restrictive measures of an administrative, exchange and monetary nature, to credit provisions, industrial location and application of the principle of reciprocity. The directives on the opening up of markets are the most extensive and the most important. They indicate that the non-extensive concessions in favour of the relatively less developed countries should be: (a) efficacious, that is, of such magnitude that they encourage investments in these countries; (b) broad enough to cover a complete productive sector or branch; (c) a table; (d) designed to provide adequate preference margins, not only with respect to third countries but also with respect to the other Contracting Parties. Moreover, under the heading "opening up of markets", the resolution indicates that since it takes time to take advantage of the non-extensive concessions - due to the necessity of making a number of studies (such as those on supply and demand) - in order not to divert the aims pursued by these concessions, the Contracting Parties should provide to the less developed countries: (a) "indirect assistance" abstaining from stimulating investments in their territories in specified activities on which agreement would have been reached to grant non-extensive concessions to Ecuador and Paraguay,<sup>7/</sup> and (b) "direct assistance", stimulating the creation of multinational enterprises with the combined support of entrepreneurs in the less developed countries and in their own countries. In order to facilitate conclusion of agreements between entrepreneurs, it is recommended that the Standing Executive Committee study the stimuli that should be applied by the countries in whose territories a programmed industry would be established, those that should be granted by the rest of the countries for the same industries, and procedures for preferential utilization of zonal equipment, materials and capital under competitive conditions.

Resolution 157 is merely declaratory on the subject of safeguard clauses. It points out that the restrictive measures foreseen in chapter VI of the Montevideo Treaty concerning safeguard clauses (articles 23 to 26)

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<sup>7/</sup> This is as far as the other countries of the ALALC have been prepared to commit themselves on subjects related to reservation of markets in favour of production that might be located in the less developed countries.

"would have a negative influence on the attraction of capital" and that their indiscriminate application to the less developed countries "causes serious prejudices to the desire to achieve balanced economic development", due to which "special consideration should be given to this matter so as to avoid adding a new element of uncertainty to present risks associated with investments". However, the first meeting of the ALALC Council of Ministers held shortly thereafter approved resolution 173 (CM/I/III-E) on safeguard clauses. It is established therein that the Contracting Parties will not apply to imports supported by non-extensive special concessions the restrictive measures foreseen in articles 24 and 25 of the Treaty, which tend to correct global disequilibrium in the balance of payments of the respective country. On the other hand, when the restrictions are adopted by virtue of article 23 - or for reasons related to "market disruption", when imports are effected in quantities or conditions that might be or threaten to be seriously prejudicial for specified productive activities that are important for the national economy - they may be applied to imports supported by special concessions, even though only with the prior authorization of the Standing Executive Committee. For this purpose, the interested party that applies the restrictive measures must show that it is in reality adjusting to the various conditions established in article 23.

Resolution 157 likewise establishes that the other Contracting Parties "will make the maximum effort" to avoid that the restrictive measures of an administrative, exchange and monetary nature affect imports coming from the less developed countries; that in so far as possible preferential treatment with respect to credit should be contemplated, in order to facilitate imports coming from the relatively less developed countries; that absolute priority should be given to the studies carried out in the Association tending to install industries in each one of those countries with effective facilities for access to the markets of the zone; and that those countries may insist on reciprocity in the measure that they effectively take advantage of the concessions that are granted to them, taking into account the need to facilitate their economic growth and thus ensure the harmonious development of the region".

/Although this

Although this resolution undoubtedly signifies progress, it does not constitute a formal commitment to adopt concrete measures in favour of the relatively less developed countries, but rather, as its title indicates, establishes certain directives that are considered fundamental for the ALALC's policy with respect to such countries. Such directives are in the nature of principles with which the concrete action of the Contracting Parties must comply in order to stimulate and accelerate the industrial development of the relatively less developed countries. On the other hand, despite the fact that the considerations contained in the resolution give one to understand that the purpose of it is to lay the basis for systematizing and co-ordinating efforts tending toward speeding up fulfillment of the aims of chapter VIII of the Treaty and the resolutions adopted by the organs of the ALALC in favour of the less developed countries in order that these provisions may have positive results, the resolution, apart from its lack of concrete commitments, has other defects. These include the limited and conditional scope of most of its provisions and its failure to consider other measures essential for achieving the aims it pursues, particularly the systematic utilization of external technical and financial assistance. Moreover the resolution is not an operative mechanism for putting into effect the basic principles or directives that it lays down, since this is left mainly to the good will of the Contracting Parties.

These limitations are common to most of the numerous resolutions adopted in the ALALC in favour of the relatively less developed countries, although there is evidence of progress toward a broader and integral focus of the problem of these countries and its possible solutions. As a result of these limitations, and of the fact that these resolutions do not comprise a systematic and integral body of measures, and - above all - of the lack of adequate operative mechanisms for ensuring effective compliance with the norms laid down, these resolutions have not in general been translated into positive results of any real significance.

## 2. The Central American Common Market and the Relatively Less Developed Countries

The problem posed by the existence of economically relatively less developed countries within the integration process has not had the same importance in the Central American Common Market as in the ALALC, owing to the fact that differences in levels of economic development of the member countries are relatively smaller in the former area. However, the principle of reciprocity, in the form of equitable distribution of benefits and balanced economic development, was recognized from the beginning as one of the basic elements in Central American integration and specific provisions were made to ensure compliance with it. As early as 1952, one of the first resolutions of the Central American Economic Co-operation Committee expressed the decision that economic integration should be based on "the broad application of the principle of reciprocity, taking into account the location of productive activities". It is precisely through efforts toward direct or indirect action for distribution and location of industries that equitable distribution of the benefits of integration and balanced regional development within the Central American Common Market has been sought.

The main instruments for achieving these aims has been the Régime for Central American Integration Industries and the Central American Bank for Economic Integration (BCIE). The agreements setting up these instruments give great importance to such aims.<sup>8/</sup> That for the former, prepared in the middle of 1958, contemplates direct action for the location of certain industries called "integration industries" the development of which, according to the provisions of article I, "shall be effected on a reciprocal and equitable basis, in order that each and every Central American state

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<sup>8/</sup> See also Evaluation of Economic Integration in Central America, E/CN.12/OCE/327/Rev.1, which, in dealing with the subject of balanced development among countries, states that with the Agreement on the Régime for Central American Integration Industries and the action of the Central American Bank for Economic Integration, the Central American Common Market has been provided with various instruments "designed, on the one hand, to guarantee equal conditions for countries on an equal footing and, on the other, to establish a scale of terms intended to mitigate the disadvantages that the relatively less developed countries might have to face".

/may progressively

may progressively derive economic advantages". These integration industries are those that require the Central American Common Market in order to reach efficient size and the establishment of each one must be covered by an additional protocol which stipulates, among other things, the country or countries where the industrial plants subject to this régime must be located initially, their minimum capacity, the conditions under which additional plants should be admitted subsequently, quality standards for the products, regulations with respect to the participation of Central American capital in the respective enterprises, and the Central American common customs duties that will be applied to the products in order to protect the industry against extra-zonal competition. These products will have the privilege of free trade among the contracting states, that is to say free access to the regional market, whereas products of similar industries which are not covered by the régime will, from the date of the additional protocol, be subject to an annual tariff reduction of 10 per cent of the common customs duty. Thus at the end of 10 years they too will enjoy free trade within Central America. In a transitorial article it is stipulated that "in order to promote an equitable distribution of the Central American industrial integration plants, the Contracting States shall not award a second plant to any one country until all of the five Central American countries have each been assigned a plant...". To ensure due application of this agreement and its additional protocols, the Central American Industrial Integration Commission was established, with each of the Contracting States appointing a special representative.

Notwithstanding the great importance attributed to this régime for promoting a joint policy for industrial development in Central America, and for the purposes of ensuring much more direct intervention in the distribution and location of new industries in the region than that foreseen in the Montevideo Treaty, its results have been very meagre. In fact only two plants, one for caustic soda and chlorinated insecticides in Nicaragua and another for the production of tyres and tubes in Guatemala, have thus far been set up under the régime. This slow pace is in marked contrast with the rapid progress achieved meanwhile in the elimination of trade barriers.

/The Central

The Central American Bank for Economic Integration points out in a report on multinational studies programmed for the period 1966/67 that "the bank has the responsibility for studying and promoting industries of great national interest for speeding up the process of the region's balanced development. Until now it has not been able to comply fully with this difficult responsibility, owing to the lack of a precise definition of the industries that could be included under the industrial integration régime, to the juridical implications of this system, and the competition that has begun to make itself manifest in the area in the efforts of each country to obtain the assignment of this type of plant, without special consideration for the economic factors related to better utilization of the region's resources".

The difficulty of determining directly the location of industries in Central America by means of the régime described contrasts with the effectiveness of direct action of the Central American Bank for Economic Integration. Since its creation in December 1960 this Bank has become the main instrument for achieving real compliance with the reciprocity principle and the correction of disequilibrium in the economic development of the Central American countries. This is just what was intended when article XVIII of the General Treaty on Central American Economic Integration foresaw the establishment of the Bank "as an instrument for the financing and promotion of a regionally balanced, integrated economic growth". Article 2 of the agreement setting up the Bank points out likewise that "The purpose of the Bank shall be to promote the economic integration and balanced economic development of the member countries", indicating thereafter sectors that should receive priority attention in accordance with this aim.

In order to achieve its objectives, the Bank uses two basic instruments: credit and technical assistance. In the latter field, it carries out on its own account general studies of projects or programmes that are of great interest for the development of the region and then puts such studies at the disposal of the governments or of private initiative. It likewise finances for those interested in a specific project the cost of the relevant feasibility study.

/Thus the

Thus the Bank is carrying out studies to determine, through technical and economic criteria, the possible optimum location and minimum economic size of new industrial plants that might be established in Central America and oriented not only toward the Common Market but the rest of the world as well. The results of such studies will be useful in making it easier for the executive organs of the Central American Common Market to take decisions on assignment of new plants, creation of growth poles within the process of balanced development, and the promotion of new projects of great regional interest.<sup>9/</sup>

In addition to the instruments of Central American integration just described, mention should be made of the Central American Agreement on Fiscal Incentives to Industrial Development, signed in July 1962, for the purpose of harmonizing policies for stimulating new industrial investments in the five countries, in accordance with the requirements "of integration and balanced economic development of Central America". This agreement contains a transitional article through which "for the purpose of applying the principle of balanced economic development among the Central American countries", an exception to the uniformity of incentives was established for ten years in favour of Honduras and Nicaragua. In the case of Honduras the preferential treatment with respect to fiscal incentives permitted for industrial development has recently been expanded.

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<sup>9/</sup> Since the Central American Common Market is at a more advanced stage than the ALALC, it shows greater evidence of a growing tendency to give regional development policy content to the integration process, which until 1960 was basically a system for freeing intra-regional trade from obstacles that had been hindering it. Three years ago a joint mission was set up, with the participation of the ECLA, the IDB and the OAS, and the collaboration of the Central American Bank for Economic Integration and the SIECA, for the purpose of assisting planning offices to co-ordinate development policies and outline general directives for the region as a whole. The mission was to take into consideration the potentialities of the regional market for the economic development of the five countries, trying to determine goals that will make possible full use of such potentialities, and assist each country in defining the measures that they need to take. Through this work the five countries have already made good progress in formulating national development programmes which take into account as much as possible a number of the main requirements that arise in the integration process. In this connexion, see Latin American Institute for Economic and Social Planning, Integración, sector externo y desarrollo económico de América Latina, provisional mimeographed version, October 1966, Vol. II.

In spite of the various instruments mentioned, the problem of balanced development within the Central American Common Market was not resolved to the full satisfaction of all the participating countries and was posed with renewed emphasis and urgency in the ninth session of the Economic Co-operation Committee (January 1966). Stress was laid on the need to grant Honduras special treatment so that it might attain full realization of the reciprocity principle, thus promoting more reasonable balance between its industrial development and that of the other countries. In this way it has been recognized that Honduras is a less developed country in relation to the others of Central America. Such recognition, which was unanimous, was expressed in the adoption of resolutions 141 and 142 on balanced development in the Central American Common Market. The first of these recommended to the Economic Council that it should indicate the industries to be assigned to Honduras within the Régime for Central American Integration on Industries in order to accelerate its manufacturing development, (their economically advisable location to be determined through studies carried out by regional technical bodies) and the industries that could be considered under the special tariff régime for promotion of productive activities. The same resolution recommends that the Central American Bank for Economic Integration facilitate the eligibility of, and give priority to, projects that may be of interest for Honduras and for the Central American market. On the fiscal side, Honduras has been granted the right to sign an additional protocol to the existing Central American agreement on the subject of fiscal incentives to industry.<sup>10/</sup>

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<sup>10/</sup> This protocol to the Central American Agreement on Fiscal Incentives to Industrial Development establishing preferential treatment for Honduras was signed in September 1966. By virtue of it, privileges are conceded to the country for the establishment or expansion of manufacturing industries within its territory. The firms to be established or already existing are classified in groups A, B and C, with respective tax exemptions for 12, 10 and 5 years for importation of machinery and equipment, raw materials, semi-manufactures, containers, fuels for industry (except gasoline), etc. Moreover these firms will not pay taxes on income and profits, nor on assets and net worth. The duration of the protocol is for five years, starting from the date it goes into effect, but the term may be extended if the Central American Economic Council should so determine after evaluating results obtained.

The co-operation of other Central American bodies is envisaged in the recommendation that they prepare, in collaboration with the government of each country, specific programmes for Honduras within the fields of research, training and advisory services. In addition it has been suggested that technical assistance of the United Nations and other international agencies be expanded and given preferentially to Honduras, especially in connexion with preparation and execution of industrial, agricultural and infrastructural projects.

Without prejudice to such decisions, relating especially to Honduras, the need to study and clarify the position of other countries on the question of balanced regional development has been pointed out. Relevant proposals are embodied in resolution 142 which recommends that the Economic Council establish within the SIECA a working group that would be in charge of carrying out comparative studies where, starting with the industrial sector, the situation and structure of the economies of all the countries would be analysed and the state of development of the principal sectors of activity would be dealt with in detail. On the basis of such studies and taking into account the different levels of growth attained by each Central American country, recommendations should be made for promoting their continued and balanced development.

