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Latin America's Foreign trade policy

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INTRODUCTION

The present document has been prepared with two aims in view: first, to evaluate the trade policy of the Latin American countries in recent years, with a view to identifying the main objectives it should pursue, and secondly, to examine the progress achieved in external trade and international financial co-operation, bearing in mind the decisions and recommendations of the United Nations Conference on Trade and Development (UNCTAD) and the General Agreement on Tariffs and Trade (GATT).

Although chapter I, which deals with trade policy, does not claim to be exhaustive, it endeavours to show that the essential aim of imbuing the external sector of the Latin American economies with the dynamism required to step up the growth rate of the gross domestic product has not been achieved. If the countries of the region have not managed to change the traditional structure of their exports over the past twenty years, while concurrently the congenital weakness of their growth has resulted in a gradual whittling away of their share of world trade, this is to a large extent because trade policy has been a passive agent among the forces moulding the economy of each country. While, undeniably, events have been to some extent determined by powerful factors which the countries of the region are unable to control it cannot be ignored that, faced with the chronic disequilibrium of the external sector, trade policy, rather than representing a deliberate and systematic effort to expand and diversify export activities, has concentrated on measures to limit imports, by encouraging indiscriminate import substitution, and to increase the flow of external financing. A look at the trends of world trade and the long-term prospects of commodities leads on to the conclusion that trade policy must have the expansion of exports of manufactures as one of its essential objectives, because of the contribution that manufactures can make to resolving the external bottleneck and energizing the Latin American economies. This does not mean that less attention should be paid to commodities; quite the reverse, the efforts of the Latin American countries at the international level will have to be redoubled to meet the targets already fixed for commodities, which account for more than 90 per cent of their total export receipts.

/The remaining

The remaining chapters of the document supplement to some extent the views expressed in chapter I, in that they examine various matters relating to trade in commodities and manufactures and to external financing in the light of recent discussions in UNCTAD and GATT. They outline the progress achieved in each of these fields and describe the nature of the proposals and recommendations that are still at the discussion or the negotiating stages, with particular reference to the decisions adopted at the second session of UNCTAD.

/Chapter I

Chapter I

TRADITIONAL TRADE POLICY AND EXTERNAL SECTOR TRENDS: CHARACTERISTICS AND DIAGNOSIS 1/

1. External sector trends in the post-war period

The evolution of Latin America's external sector in the last twenty years has been highly unpromising both in the region as a whole and in most of the individual countries. Its trend and characteristics are the result not only of the adverse factors that continue to beset international commodity trade, and the problems and obstacles created by international trade policy but also of the tenor of trade policy and the economic development of the Latin American countries.

A broad summary of those trends and features is given below.

(a) Slow growth of exports (except in the relatively less developed countries). The sluggish tempo in the growth of exports was accompanied by a fall in prices between 1954 and 1962 and under-diversification. Because of this, exports still retain their traditional structure, with the bulk of the products consisting of primary commodities, and each country being heavily dependent on a few such staples for its export trade. This lack of diversification in product and market structure has prevented the Latin American countries from overcoming the stagnation in their foreign trade, which has been flagging as a result of the inflexibility of demand in the region's traditional commodity markets, falling prices and other features of such markets which have had an adverse impact on the export

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1/ Except where otherwise indicated, the expressions "Latin America", "Latin American countries", etc. refer to the twenty countries that have traditionally made up the Latin American area, that is, including Cuba but excluding the Caribbean countries (Trinidad and Tobago, Jamaica, Guyana and Barbados). As it is not long since these countries became independent, and as they are members of the British Commonwealth preference system and their economic and trade relations are mainly with the Commonwealth, and particularly the United Kingdom, their external sector and trade policies differ considerably in nature and trend from those of the countries in the Latin American region proper. Nevertheless, many of the conclusions to be drawn from this analysis will be valid for them. In the case of Cuba, however, the applicability of the conclusions and analysis is strictly limited, as its trade policy, external sector and economic development policy have changed fundamentally since the beginning of the nineteen-sixties.

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trade of the Latin American countries (including those which have made headway with their industrial development). Consequently, it is still carried on within the traditional pattern of the international division of labour, although that pattern was regarded as no longer valid twenty years ago.

(b) Steady decline of the import coefficient, which in some cases has dropped so low that it can hardly be reduced any further, in nearly all the countries with larger markets and a more advanced industrial sector (Argentina, Brazil, Colombia, Mexico, Uruguay and Venezuela). There was also a change in the structure of imports, which, in most of the above-mentioned countries, ended up with very few non-essential consumer goods. This trend, which results from the limitations of the capacity to import, the process of import substitution, and the requirements of industrial growth itself, shows that the trade gap (the difference between the cost of the imports needed to achieve certain development targets and export earnings) is widening and has led to a new and more serious kind of external vulnerability in those countries. On the other hand, the import coefficient has increased, at times very substantially, in nearly all the other Latin American countries, namely, Peru and those at a relatively less advanced stage of development, except Costa Rica and Haiti.

(c) The rapid growth of external indebtedness, mainly of the short- and medium-term sort, in nearly all the countries of the region. This has led to a sharp increase in the volume of service payments on external debts, which, in recent years, have absorbed an overwhelmingly large proportion of the income from exports of goods and services, particularly in the more industrially developed countries, and have inevitably had an adverse effect on their capacity to import. Service payments by the Latin American countries on their external debt amounted to 2,000 million dollars in 1967 or just over 16 per cent of their entire revenue from

/exports in

exports in that year.[2/] This figure would be much higher if all foreign capital servicing were taken into account. For the region as a whole, except Cuba, total payments averaged 36 per cent of export earnings in 1960-66 as against 18 per cent in 1950-54, and by 1966 they had jumped to 48 per cent for Brazil, 47 per cent for Chile and 41 per cent for Mexico. In the last few years, the region has reached the point at which its capital outgoings exceed its revenue and has become a net exporter of capital, owing to the situation of the more developed of the Latin American countries, with the exception of Mexico.[3/]

(d) Contraction of the region's gross international reserves up to 1962, when they were lower than at any other time in the post-war period, mainly because of the losses suffered by Argentina, Brazil, Colombia and Uruguay, which had to draw on their reserves to narrow the trade gap. Although they made a remarkable recovery between 1962 and 1967, in the latter year gross reserves were only just enough to pay for one to three months of imports in nearly all the Latin American countries. Moreover, in most of them, the level of reserves has sunk very low and, in Brazil, Chile, Colombia, Uruguay and a few others, the balance becomes definitely negative when the central banks' liabilities abroad are deducted.

2/ World Bank International Development Association, Annual report 1968, tables 6 and 7. The public external debt of the Latin American countries is much higher than that of any other developing area (12,000 million dollars as of 30 June 1967 out of a total of 29,460 million for all developing countries). As these loans have shorter maturity periods, the sum of 2,000 million dollars paid by Latin America in 1967 to service the debt was equivalent to 55 per cent of the total (3,750 million) paid by the developing countries as a whole. Moreover, it is the Latin American countries, and particularly Argentina, Brazil and Mexico, that spend the highest proportions of their export earnings on debt servicing.

3/ For further details on the trends and current situation of the external financing of the Latin American countries, see chapter IV, and also the "Economic Survey of Latin America, 1968" (E/CN.12/825) and "The trade and domestic savings gaps and structural unemployment in Latin America" (E/CN.12/831).

/2. Trends

2. Trends of Latin American exports

These characteristics are largely a reflection of export trends. From 1950-52 to 1965-67, aggregate Latin American exports averaged an annual cumulative growth rate of only 3 per cent, which fell far short of the level required to meet import demand, particularly in the context of the process of economic growth. This low rate is all the more significant in that during that period there was a strong and sustained upswing in international trade with world exports expanding at a cumulative rate of nearly 7 per cent yearly. Latin America, however, lagged behind all the other regions in the tempo of its export trade (see table 1), and its share of total world exports shrank from 11 per cent in 1950 to 5.3 per cent in 1967 as a result.

During that time, the growth rate of Latin America's export varied quite appreciably. Between 1955 and 1960 it was virtually at a standstill, mainly because of a drop in the prices of a number of commodities. In 1960-66 it made a good recovery, thanks to higher prices in some cases and an increase in the volume exported in others. The moderate contraction in 1967, and the expansion indicated by the provisional figures for 1968, are the most recent manifestations of this mode of growth. Export trade has thus not only been slow to grow, but also highly prone to flag altogether. In both respects, the main reasons have been the heavy share of exports that is accounted for by a few primary commodities, and the immediate and long-term problems faced by these commodities in the world market.

/Table 1

Table 1

LATIN AMERICA: EXPORT OF INDIVIDUAL COUNTRIES AND GROUPINGS AND WORLD TOTAL

(Cumulative annual growth rates)

Country of origin	1950-55	1955-60	1960-65	1966/1965	1967/1966	Average 1950-52/ 1965-67	Value of exports in 1967 (millions of dollars)
Argentina	-4.5	3.1	6.7	6.7	-8.1	2.8	1 464
Bolivia	0.8	-8.1	16.1	11.6	17.7	1.9	153
Brazil	0.9	-2.2	4.7	9.1	-5.0	0.6	1 654
Chile	10.5	-0.4	7.5	25.7	0.5	5.2	869
Colombia	7.9	-3.7	3.8	-9.7	4.8	1.4	549
Ecuador	9.2	4.9	4.3	3.3	7.5	5.7	200
Mexico	8.9	-0.9	8.4	7.2	-6.2	4.5	1 152
Paraguay	2.2	-1.1	10.5	-11.5	-7.4	3.1	50
Peru	7.3	9.9	9.1	15.2	-3.0	8.2	765
Uruguay	-6.3	-6.7	8.2	-2.6	-14.5	-1.7	159
Venezuela	10.3	4.6	0.4	-3.9	5.1	5.0	2 462
LAFTA, including intra-area trade	4.2	1.3	4.8	5.1	-1.7	3.1	9 477
LAFTA, excluding intra-area trade	-	-	4.3	5.0	-1.5	-	8 826
CACM, including intra-area trade	7.7	0.4	12.4	9.1	2.5	6.4	858
CACM, excluding intra-area trade	-	-	9.9	4.6	-2.6	-	644
Cuba	-1.8	0.2	2.1	-13.7	11.5	-0.7	(660)
Dominican Republic	5.8	6.4	-4.3	9.5	13.8	1.7	157
Panama	8.4	-2.8	18.7	12.0	9.7	8.4	113
Haiti	-0.6	1.7	0	-7.1	-8.6	-1.9	32
Total, Latin America	3.8	1.2	5.0	4.3	-0.4	3.0	11 296
Total, developing countries	4.4	3.7	7.3	6.3	3.4	3.9	40 000
Total, developed countries	10.1	7.2	8.4	10.4	5.5	7.5	149 500
World total	9.2	6.4	7.8	9.2	5.2	6.9	214 140
	1950	1951	1952	1965	1966	1967	
Latin America's share of world total	11.0	9.5	8.8	5.8	5.6	5.3	

Sources: International Monetary Fund, Balance of Payments Yearbook, vols. 14-19; for intra-LAFTA trade, ECLA, Economic Survey of Latin America, 1966 (United Nations publication, Sales N°: E 68.II.G.2); Carta informativa, Permanent Secretariat of the Central American Economic Integration Treaty; United Nations, Yearbook of International Trade Statistics, 1954, 1962, 1966.

/A low

A low growth rate and continued vulnerability to world market vicissitudes are features that are common to trade the export of the region as a whole and of nearly all the individual countries, even those where industry is most advanced. In spite of their industrial development, these countries have not succeeded in changing the traditional structure of their exports to any great extent, which still largely consists of a handful of primary commodities, and most of their external purchasing power is, as always, at the mercy of international demand for these products. Admittedly, with two or three exceptions, there are signs that the different countries are coming to depend less on certain key products in their export trade, but obviously there has been no major change in this respect nor has any modification been made in other than primary products.4/

The characteristics and trends of the external sector differ considerably from one country to another. As table 1 indicates, exports increased at a fairly high cumulative rate over the past fifteen years in a group of countries, consisting of Panama, Peru, the Central American Common Market members and, to a lesser extent, Ecuador. In other words, six of the seven Latin American countries which achieved the greatest expansion in exports are at a relatively less advanced stage of development. Of the twenty countries in the region, only ten enjoyed an annual growth rate of 5 per cent or more for their exports. The rate was over 6 per cent in five only, from 3 to 5 per cent in two, and under 3 per cent in the remaining eight countries (including Argentina, Brazil and Colombia). In three of the countries in the last group (Cuba, Haiti and Uruguay), exports contracted in absolute terms.

4/ Almost half the Latin American countries are still dependent on a single product for more than 50 per cent of their export earnings. They include Chile, Colombia and Venezuela, where copper, coffee and petroleum respectively averaged 65, 67 and 90 per cent of their total exports between 1964 and 1966. In five others, including Brazil, one commodity accounted for 44 to 50 per cent. Argentina, Peru, and in particular Mexico have gone furthest in diversifying their exports, but these still consist of a fairly small number of products.

/With regard

With regard to the countries whose export trade averaged a relatively high rate of growth, it is useful to point to the specific conditions that made this possible. It has already been noted that six of the seven countries whose exports made the greatest headway are relatively less developed, and the value of their exports, at the beginning of the period at any rate, was quite small (30 million dollars or less for Nicaragua and Panama and from 50 to 80 million dollars for the others). As a result, the products they have to offer count for little in world export trade. They are, in fact, marginal suppliers of such commodities (the only important exception being bananas) and by taking advantage of propitious conditions despite the state of world demand, could thus step up their exports very quickly, to quantities that might have little relative importance elsewhere but would represent a huge percentage increase for them. For instance, the upswing in the Central American countries' exports was mainly in cotton, followed by coffee (in which Ecuador also achieved a substantial increase). Their progress was largely due to the restrictions on production and exports applied by the United States to cotton and by Colombia and Brazil to coffee. In Panama, the extremely rapid growth of exports after 1960 can be traced to an expansion in the volume of banana sales, and to exports of refined petroleum on the basis of imported crude, which began in 1962. Similarly, the export trade of the countries members of the Central American Common Market after 1960 developed largely because of the remarkable growth rate of intra-area trade, which rose by more than 30 per cent each year between 1960 and 1967.

The only country that departs from the rule to some extent is Peru, whose exports have grown rapidly and steadily throughout the period under consideration. During most of the nineteen-fifties their development was due to an expansion in the volume of such traditional export items as copper, silver, lead, zinc, coffee, sugar and cotton, and later to the introduction of iron ore and, above all, fish meal, which is increasing rapidly in price and volume. In addition, the price of copper rose considerably in 1965 and 1966. In 1967, however, the tempo of expansion slowed down abruptly, mainly because fish meal fell in price apparently owing to heavy competition from a lower-priced substitute - soya bean cake - which the United Sates is starting to export in large quantities. In other words, by becoming the leading world producer and exporter of fish meal, Peru has greatly

/limited its

limited its possibilities of further development and is being increasingly affected by the problems that confront major exporters of primary commodities, i.e., a glutted market, violent price fluctuations, growing competition from substitutes, etc.

One of the major factors conditioning the evolution of export income in Latin America is the instability of market prices for its staple exports. The general index of the unit value of exports, although varying widely and erratically from one commodity to another, reached its peak in 1951 and from then on declined steadily (especially in 1954) until it touched its lowest point in 1962, when it was 22 per cent below the maximum. Much of the increase in the volume of sales thus went to compensate for the fall in prices. Although there was an annual increase of 4.8 per cent in the volume of exports between 1954 and 1962, they improved only 1.7 per cent in value, since the average unit price during that period dropped 2.9 per cent each year. Between 1962 and 1966, however, exports rose by 6.2 per cent in value annually, although expanding a good deal less in volume (2.9 per cent), thanks to an average yearly increase of 3.3 per cent in the price index. In other words, the value of Latin American exports was much higher in 1960-66 than in the two previous periods mainly because of the improvement in prices, especially for copper and other metals, coffee, bananas and grains.

The most dynamic sector of Latin American exports has been manufactures and semi-manufactures, which developed at a cumulative annual rate of nearly 10 per cent (more than three times the growth rate of exports in the aggregate) from 1955-57 to 1964-66 (see table 2). As a result, they have appreciably increased their proportional share of exports while remaining fairly limited in absolute terms (with an increment of only 5 per cent yearly in 1964-66).[5/] Moreover, as will be seen later, the increase in Latin America's exports of manufactures was primarily due to the expansion of intra-area trade in those categories, both in LAFTA and, relatively to a far greater extent, in the Central American Common Market.

5/ For an explanation of the classification of products into primary commodities and manufactures adopted in table 2 and others in this study, see the methodological annex below.

Table 2

LATIN AMERICA: TOTAL EXPORTS, BY GROUPS OF PRODUCTS, 1955-57 AND 1964-66

SITC sections and chapters	Millions of dollars		Percentage of total		Cumulative annual growth rate
	1955-57	1964-66	1955-57	1964-66	
Food, beverages tobacco (sections 0 and 1)	3 933	4 903	46.7	44.1	2.5
Crude materials, inedible, except fuels (sections 2 and 4)	1 573	2 149	18.7	19.3	3.5
Mineral fuels, lubricants and related materials (section 3)	2 127	2 713	25.3	24.5	2.7
Non-ferrous metals (chapter 68)	515 a/	757	6.1	6.8	4.4
Total primary products	8 148	10 517	96.7	94.7	2.9
Chemicals (section 5)	85	173	1.0	1.5	8.2
Simple manufactured products (sections 6 and 8 excluding chapter 68)	148	320	1.8	2.9	8.9
Machinery and transport equipment (section 7)	13	69	0.2	0.6	20.0
Total manufactures	246	562	2.9	5.1	9.6
Total exports b/	8 427	11 107	100.0	100.0	3.1

Source: United Nations, Monthly Bulletin of Statistics, various issues.

a/ Includes a small volume of iron and steel exported from Mexico.

b/ Includes various exports in section 9 (arms, coins that are not legal tender, etc.).

/3. Determinants

3. Determinants of export trends

The tardy growth and under-diversification of exports not only account for the aggravation of Latin America's external-sector bottleneck by the widening of the gap between requirements and the capacity to import, but also explain why exports have not played an active role in the region's industrial growth, since their composition has not changed and developed to the same extent as the structures of the Latin American economies. Herein undoubtedly lies one of the major reasons for the region's slow rate of economic development, and above all for the difficulties which have been increasingly hampering steady expansion in most of its more highly industrialized countries. But the combination of characteristics described, and, more directly, the sluggish progress of exports of manufactures, are in their turn a product of these countries' industrialization and economic development policy itself (inasmuch as import policy has been made one of its key components) and of deficiencies in their trade policy. The operation of these internal factors, which will be analysed later, is reflected in the Latin American countries' inability to adapt their exports to the changing structure of world trade, in which manufactures - particularly the new products emerging as a result of rapid technological advances - have come to represent virtually the sole dynamic element.

(a) International trade in primary commodities and manufactures

International trade in primary commodities is adversely affected by various well-known factors whose repercussions make themselves felt in a relatively slow growth rate and in a marked degree of instability. In both cases, a significant role is played by the evolution of prices, partly on account of their frequent and sharp fluctuations and partly because of their long-standing tendency to deteriorate in relation to the prices of manufactures.

Some of the factors in question derive from the very nature of supply and demand in respect of primary commodities (for instance, variations in harvests; long intervals - sometimes of several years - between planting and entry into production; a very large number of

/relatively small-scale

relatively small-scale producers; in the case of mineral products, the depletion of existing deposits or the discovery of new ones, etc.). These hinder or prevent effective control of production and make the supply situation very hazardous, periods of great plenty alternating with others of relative shortage. Furthermore, it is much more difficult in primary production than in manufacturing to make the necessary adaptations to changes in demand, in competitive conditions and in production techniques. Demand is characterized, in the case of food products, by its low price- and income-elasticity, and in that of raw materials by its dependence on the level of economic activity in the industrialized countries and by increasing competition from synthetic or artificial substitutes. All this places the products concerned at a disadvantage. As previously noted, save in exceptional circumstances deriving from a highly favourable world market conjuncture, possibilities for more or less rapid expansion of exports of a given primary commodity exist only in those countries which carry little relative weight in world trade in that product, especially if the leading suppliers are pursuing a policy of export restriction.

An adverse influence is also exerted by factors deriving from the production, import and export policies in respect of primary commodities (especially temperate-zone agricultural products) followed by many developed countries. Their effect is not only to limit and in some cases completely block access to their markets for various primary commodities of export interest to developing countries, but also to generate sizable export surpluses. These surpluses, like other primary commodities produced in the countries concerned, are exported at prices much lower than those charged on the domestic market, and sometimes even below the level of world market quotations; in addition, they benefit by very favourable export financing terms. All this militates against the export opportunities of the developing countries. A similar situation often arises in the case of industrialized countries exports of manufactured substitutes for primary commodities.

Again, it has sometimes happened that the economic development policy followed by certain developing countries - in particular some of those of Latin America - has had adverse effects on their primary production and therefore on the availability of export surpluses of basic commodities.

Table 3 shows the effect of these and other factors both on over-all trends in world exports of primary commodities and manufactures (with a break-down by major areas of origin), and on the evolution of Latin America's exports and their relative position within the broader framework of world trade. The conclusions to be derived from the analysis of this table are highly significant not only for the light they shed on what occurred during the period covered, but also because of their implications for the probable future evolution of Latin America's external sector if the traditional export structure is maintained.

The following are among the most important of the conclusions referred to:

(i) Manufactures are the really dynamic element in the expansion of world trade, since the cumulative annual growth rate of industrial exports is twice as high as that of primary commodities. This disparity is more marked in the case of exports from Latin America and from the developing countries as a whole, although manufactures still constitute only small percentages (5 and 12 per cent, respectively, in 1964-66) in total exports from both areas of origin;

(ii) As a result, the share of primary commodities in world trade dropped from an average of 53 per cent in 1955-57 to only 43 per cent in 1964-66. In table 3, all the groups in which these commodities are classified show much lower growth rates than those comprising manufactures;

/Table 3

Table 3

EXPORTS: DISTRIBUTION AND ANNUAL GROWTH RATES, BY CATEGORIES AND AREAS OF ORIGIN, 1955-57 AND 1964-66

(Millions of dollars and percentages)

SITC section and division / Category of products	From Latin America: Average annual (millions of dollars) 1955-57	From Latin America: 1964-66	From Latin America: Annual growth rate	From developing countries: Average annual (millions of dollars) 1955-57	From developing countries: 1964-66	From developing countries: Annual growth rate	From developed countries a/: Average annual (millions of dollars) 1955-57	From developed countries a/: 1964-66	From developed countries a/: Annual growth rate	World total b/: Average annual (millions of dollars) 1955-57	World total b/: 1964-66	World total b/: Annual growth rate
Total exports	8 427	11 107	3.1	24 650	36 667	4.5	67 110	129 182	7.5	102 076	187 940	7.0
Section 0 and 1. Food, beverages and tobacco	3 933	4 903	2.5	7 973	10 430	3.0	9 817	17 917	6.9	19 477	31 280	5.4
Sections 2 and 4. Crude materials, inedible, except fuels	1 573	2 143	3.5	6 940	8 207	1.9	9 427	13 820	4.4	18 457	24 960	3.4
Section 3. Fuels	2 127	2 713	2.7	6 443	11 387	6.5	3 810	4 337	1.4	11 510	17 990	5.1
Division 68. Non-ferrous metals	515	757	4.4	1 239	1 957	5.2	2 998	4 243	3.9	4 696	6 750	4.1
Total primary commodities	8 148	10 517	2.9	22 595	31 981	4.0	26 052	40 317	4.9	54 140	80 980	4.6
Section 5. Chemical products	85	173	8.2	238	517	9.0	4 610	10 690	9.8	5 233	12 270	10.0
Sections 6 and 8 (excluding division 68). Manufactured products	148	320	8.8	1 558	3 599	9.7	18 365	35 987	7.8	21 717	45 180	8.6
Section 7. Machinery and transport equipment	13	69	20.0	132	407	13.3	17 020	39 663	9.9	19 640	46 030	9.9
Total manufactures	246	562	9.6	1 928	4 517	9.9	39 995	86 340	8.9	46 590	103 480	9.3
				Share of each area in total exports of each category of products (percentages)								
Total exports	8.2	5.9		24.1	19.6		65.7	68.9		100	100	
Sections 0 and 1. Food, beverages and tobacco	20.2	15.7		40.9	33.3		50.4	57.3		100	100	
Sections 2 and 4. Crude materials, inedible, except fuels	8.5	8.6		37.6	32.9		51.1	55.4		100	100	
Section 3. Fuels	18.5	15.1		56.0	63.3		33.1	24.1		100	100	
Division 68. Non-ferrous metals	11.0	11.2		26.4	29.0		63.8	62.8		100	100	
Total primary commodities	15.1	13.0		41.8	39.5		48.2	49.8		100	100	
Section 5. Chemical products	1.6	1.4		4.5	4.2		88.1	87.1		100	100	
Section 6 and 8 (excluding division 68). Manufactured products	0.7	0.7		7.2	7.9		84.8	80.0		100	100	
Section 7. Machinery and transport equipment	0.1	0.2		0.7	0.9		86.7	86.2		100	100	
Total manufactures	0.5	0.5		4.1	4.4		85.8	83.4		100	100	

Source: United Nations, *Monthly Bulletin of Statistics*, March and April 1961, March and May 1968, and *Yearbook of International Trade Statistics*, 1957.

a/ Developed countries with market economies (Australia, Canada, Japan, New Zealand, South Africa, United States, Western Europe).

b/ Include trade of the socialist countries, except trade between the People's Republic of China, North Korea, North Vietnam and Mongolia, and between the Federal Republic of Germany and the German Democratic Republic.

The (iii)/

(iii) The developed countries have expanded their exports of primary commodities a good deal faster than the developing countries in general and the Latin American countries in particular, as a result of United States agricultural surplus disposal policy, the formation of regional groupings such as the European Economic Community, and the subsidy policies applied in general by the developed countries. For example, in the food products group, the annual growth rates of exports were only 2.5 per cent for Latin America and 3 per cent for the developing countries as a whole, whereas the developed countries expanded their exports at a rate of nearly 7 per cent, owing to their increased sales of cereals and other temperate-zone agricultural products. In the raw materials group (SITC sections 2 and 4), the respective annual growth rates were 3.5, 1.9 and 4.4 per cent, the last of these mainly reflecting the expansion of the developed countries exports of synthetic rubber, man-made fibres, wool and vegetable oils.

(b) Internal factors deriving from development policy and trade policy

During the nineteen-thirties, the external-sector bottleneck compelled the Latin American countries to impose severe exchange and quantitative restrictions on imports, with the indirect but very important result that industrial development was protected and promoted. Later, with the suspension of supplies of manufactured goods from abroad during the Second World War, this industrialisation process was given additional impetus. The effects thus produced were more marked and more lasting in the countries with larger markets, in particular Argentina and Brazil, and led to a reformulation of their economic development policy, which at the close of the nineteen-forties, began to look mainly towards industrialization as a basic dynamic factor of growth.

Although these changes in development policy were brought about primarily by exogenous factors, it had already been recognized that even if export trends had not been unfavourable, the outward-directed growth which had characterized the economic development of the Latin American countries in its initial phase had serious limitations and disadvantages. It was based on a system of international division of labour in which

/the specific

the specific role incumbent upon the Latin American countries, as part of the "periphery", was to produce food and raw materials for the major industrial centres and to constitute a market for their manufactures. This implied the perpetuation of a dependence which discouraged or circumscribed the industrial development possibilities of the countries of the region. The system in question gradually lost ground to a different pattern, in which vital significance was attached to industrialization as the principal means of promoting economic development, remedying the congenital weakness of the Latin American economies, enabling them to secure a proper share in the benefits of technical progress, absorbing the labour force increment and, in general, increasing the productivity of manpower and progressively improving the levels of living of the broad masses of the population.6/

Nevertheless, recognition of the fact that the traditional system of international division of labour was prejudicial to the Latin American and other peripheral countries, and could not remain in force in a changing Latin America, was not reflected in a reformulation of development strategy so that one of the essential objectives of the industrialization process - which in its turn was the basis of that strategy - came to be a radical alteration of the composition of Latin American exports. Industrial development in the Latin American countries acquired significance and continuity almost entirely in response to the inadequacy of the capacity to import and the consequent need to reduce imports through their replacement by domestic production. Hence import substitution was from the outset, and still is, the basic - if not the only - objective of the Latin American countries' industrialization policy, and at the same time the mainspring of economic development in many of the countries of the region.

6/ See Raúl Prebisch, El desarrollo económico de América Latina y sus principales problemas (United Nations publication, Sales N°: 50.II.G.2), reprinted under the English title of "The economic development of Latin America and its principal problems" in Economic Bulletin for Latin America, vol. VII, N° 1 (1962), pp. 1-22

/This industrial

This industrial development process based on import substitution did not take place at the same rate or at the same time in all the Latin American countries. It started first, and acquired most importance, in those with bigger markets; elsewhere, particularly in the countries with the smallest markets, it is still in its initial phases, both because of the handicaps to industrial development represented by these market limitations, and because exports of primary commodities still play an important role as a dynamic factor in the development of the countries concerned.

It was inevitable, moreover, that industrial development, at least in its initial stages, should be based essentially or entirely on import substitution, since the instruments for the attainment of this end - through various measures relating to import control and restriction and to protection for the domestic industry - are in the hands of the governments concerned, are relatively easy to apply and yield quite effective results, whereas the production of manufactures for export is a much more difficult goal to reach, especially for incipient industries and under-developed economies. Hence it is that Latin America (with the exceptions and disparities indicated in the foregoing paragraph) has entered upon a new stage of economic growth which may be described as inward-directed development, and in which the dynamic factor is constituted by import substitution industries geared only to the requirements of the domestic market.

The problem lies not so much in the fact that the industrial development process in the Latin American countries, in its early stages, was based mainly on import substitution, but rather in the exaggerated and indiscriminate emphasis that has been placed on import substitution, and in the features characterizing industrial development from the outset. The nature and persistence of those features have had adverse effects on Latin America's economic development. These include the fact that the countries of the region, even those at a more advanced stage of industrial development, have been unable to go beyond the first phase of the process and develop a substantial volume of exports of manufactured products.

/Consequently, while

Consequently, while the particular features of industrial development in the Latin American countries have given rise to substantial changes in the composition of imports and a steady reduction in the import coefficient, they have had little or no effect on the structure of exports, which still consist almost exclusively of primary products. Therefore, despite the industrial development they have achieved the traditional system of international division of labour is, in practice though no longer in theory, still fully in force for these countries. An exacerbating factor is that the problems and limitations which this system entails for the external sector and for the economic development of the Latin American countries, instead of being solved or mitigated, have to a great extent been aggravated by the way in which the industrial development process has evolved.

The reasons for this are well known and have been set forth and analysed in several documents.[7/] They can be summed up as follows: lack of import substitution programming, excessive emphasis on import substitution as the only viable solution to the insufficiency of the region's capacity to import and as the basic objective of industrial development policy, and failure to pay due attention to the shortcomings of the inward-directed development system. Faced with a bottleneck in the external sector, the Latin American countries tend to adopt import restriction measures and resort to external financing. Import substitution, at the outset at least, was the result not of a deliberate policy but a by-product of restrictions imposed for balance-of-payments reasons. Even later, import substitution continued on an improvised and by no means selective basis, since the main concern is still to

7/ Raúl Prebisch, Towards a Dynamic Development Policy for Latin America (United Nations publication, Sales N°: 64.II.G.4); ECLA, "Problemas y perspectivas del desarrollo industrial latinoamericano" (E/CN.12/664), also in printed form (Buenos Aires, Solar, 1964); and Irving S. Friedman, "The developing countries in the past twenty years: Growth transformation and problems", a paper prepared for the Conference on World Co-operation for Development, held at Beirut from 21 to 27 April 1968.

solve the problem of the insufficient capacity to import. It is therefore a process which responds mainly to emergency measures or short-term decisions adopted because of external sector pressures and disequilibria. In these circumstances, import substitution is being carried out on an indiscriminate basis without taking into account the costs involved in alternative uses of resources or their effects on the possibilities of developing other industries, that is, without regard for rational criteria governing choice and priority in the light of the economic feasibility of various alternative possibilities. At the same time, by their very nature, import restrictions tend to result in excessive protection for substitution industries, which has led to a system of partly self-sufficient development.

These characteristics have had a frankly negative effect on the Latin American countries' possibilities of developing exports of manufactures. Some underlying factors have been the high production costs of most industries and their resulting inability to compete on world markets, the lack of incentives to face severe international competition when they enjoy a virtual monopoly of the domestic market and the adverse effect which the existence of inefficient high-cost industries can have on other more efficient industries, particularly when the former produce important inputs for the latter.[8/]

8/ An eloquent example of the effects of excessive and indiscriminate protection is the paradox that, although Latin America is a major producer and exporter of raw materials, Latin American industries have to pay more for these inputs than industries in the developed countries, according to T.R. Gates and F. Linden, Costs and competition: American experience abroad (The National Industrial Conference Board, New York, 1961), cited in "Problemas y perspectivas del desarrollo industrial latinoamericano", op. cit., pp. 44 et seq. Table 2 in this document shows that of the 147 United States enterprises analysed in the Gates and Linden study, which operated simultaneously in the United States and abroad, 81 per cent obtained raw materials from Latin America at a higher cost than in the United States. The same was true of 66 per cent of the United States enterprises with respect to the European Common Market, and 69 per cent with respect to other countries (Canada, the United Kingdom and Australia). The difficulties in expanding Latin America's exports of manufactures have been aggravated by the restrictive trade policy of developed countries with regard to groups or types of articles in the production of which the developing countries have or may have greater comparative advantages (e.g., processed foodstuffs, textile goods, etc.) and which are therefore the products of most interest or potential interest to the region. These restrictions have not only a direct impact on the possibilities of expansion, but also the important indirect effect of discouraging the application of measures that would put these industries on a competitive footing.

/Other obstacles

Other obstacles include long and complex formalities, the absence of a systematic integrated promotion programme, and the exchange systems in force. The exchange rate normally reflects, in both Latin America and other developing countries, the relationship between domestic costs and international prices of primary exports; in the case of manufacturing production this represents over-valuation from the standpoint of the relation between its domestic costs and world prices. Even if the nature of industrial development in the Latin American countries had not been such as to make manufacturing costs so high, these costs would in any case have been higher than in the developed countries, both because they are incipient industries and, in a more general and lasting sense, because of the backward state of the economy as a whole. It is therefore inevitable that the domestic price structure should differ so much from the international price structure, the prices of manufactures being relatively higher than those of primary products.[9/] Therefore, even with relatively efficient industries, exports of manufactures would be possible only at a more favourable exchange rate than that considered adequate for traditional exports, or else by means of subsidies and other incentives that would compensate for the higher production costs compared to those for primary products.

The trade policy pursued by the Latin American countries shows deficiencies similar to those noted in their industrial development policy. Moreover, the characteristics and implementation of the two policies are closely interdependent, even though this relationship

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9/ One effect of this distortion in the domestic price structure is to swell the importance of the manufacturing sector in the gross national product and correspondingly diminish that of the primary sector.

has often - perhaps in the majority of cases - been more accidental than deliberate. Accordingly, as with industrial development policy, the region has no systematic long-term trade policy with goals that have been rationally defined within the context of a planned economic development policy. Nor is there a sufficiently autonomous trade policy; there are only measures that have generally been adopted to meet emergency balance-of-payments situations and which basically constitute a defensive short-term policy in response to external factors.

The main concern and objectives of trade policy in the Latin American countries, particularly those with the biggest markets, has been to impose strict import restrictions in order to curb the growing demand for imports and tailor it to the capacity to import, while in most cases simultaneously maintaining a systematically over-valued rate of exchange. On the export side, the emphasis is still on traditional exports and traditional markets, with as yet no systematic integrated policy of expansion and diversification of both products and markets. To sum up, the salient features of export policy in the Latin American countries have been a passive attitude, lack of aggressiveness and drive in seeking new markets and new products, and inability to adapt to the real world market situation.[10]

10/ Although it is true that many Latin American Countries have been paying increasing attention to the promotion of non-traditional exports, action in this field is usually confined to piecemeal and sporadic measures, that are subject to changes and lack continuity.

/4. World

4. World trade prospects for primary products

To judge from various projections and estimates prepared mainly by UNCTAD and FAO,[11/] the prospects of an increase in exports of primary products from developing countries are frankly disheartening. In fact, these projections indicate that, even on the most favourable assumptions, the growth rates shown in table 3 - which are markedly insufficient to ensure an adequate expansion of the export sector - would persist, but on less favourable assumptions the rates would actually decline. This applies to the situation in general. Prospects differ for the various categories of products and for specific products, and also for the various regions and individual countries according to the items they export. On the whole, they are particularly unfavourable for agricultural commodities (especially raw materials), somewhat more encouraging for minerals and metals, and much more favourable for fuels.

11/ FAO's projections are presented in Agricultural Commodities: Projections for 1975 and 1985 (Rome, 1967) and relate to food and agricultural raw materials. As stated in the study, the projections cover production and demand. Although they are not basically trade projections, if used prudently they may indicate the main future flows and help to provide an insight into trade problems. The references made here to these projections are concerned mainly with the growth rates of demand for imports rather than the potential supply of exports, since the former have a more decisive effect on exports from developing countries. Account should also be taken of the assumptions on which these projections were based, since the latter are necessarily a reflection of the former. The assumptions relate mainly to the population growth rate, the rates of growth of total and per capita income, prices, and agricultural and trade policies. In general, it was assumed that prices would be maintained at the 1961-63 level, which was the base period chosen - i.e., the projections are in terms of volume - and that there would be no change in official agricultural and trade policy except any that might have been announced in 1966.

/As noted

As noted in table 4, the projections presented in the UNCTAD report entitled "The longer-term prospects for commodity exports from developing countries" (TD/9/Supp.2) of November 1967 indicate a growth potential for exports of primary commodities from developing countries of 4.6 per cent in the period 1960-75 on the lower assumption, and 5.1 per cent on the higher assumption.[12/] If fuels are excluded, the rates would be much lower, ranging from 2.8 to 3.5 per cent. Roughly speaking, these last percentages more accurately reflect the growth prospects of the traditional primary commodity exports from Latin America, excluding Venezuela, and even including it if the rate of growth of its petroleum exports remains very much below the rate for total petroleum exports from developing countries, as occurred in the period referred to in table 3.

According to the projections in table 4, the annual growth rates of countries whose exports are predominantly agricultural would be between 2.4 and 3.1 per cent. This would include all the Latin American countries - with the exception of Bolivia, Chile and Venezuela, and to some extent, Mexico and Peru, whose prospects look more encouraging since they are exporters of minerals, metals and fuels.

This is confirmed in table 5, which shows maximum and minimum growth rates derived from projections for commodities which carry special weight in Latin American exports. The table indicates that, with the exception of meat and cereals among the agricultural commodities, and non-ferrous metals and iron and manganese ore, the growth rate at best would not rise above 4 per cent and in most cases would be below 3 per cent.

12/ Both these and FAO's projections are at constant prices (1960 and 1961-63 prices, respectively). Therefore, if commodity prices continue to deteriorate over the long term, then the rate of growth of export earnings will be lower than that projected.

Table 4

EXPORTS OF DEVELOPING COUNTRIES BY MAJOR COMMODITY GROUPS, 1960 AND PROJECTED FOR 1975

	Projected 1975			Rate of growth 1960-75	
	1960	Low	High	Low	High
	(thousands of millions of dollars at 1960 prices)			(annual precentages)	
Foodstuffs a/	9.3	14.2	15.6	2.8	3.5
Agricultural raw materials b/	5.1	6.4	7.1	1.6	2.3
Total agricultural products	14.4	20.6	22.7	2.4	3.1
Metals and mineral (excluding fuels) c/	3.2	6.0	6.4	4.3	4.8
Subtotal	17.6	26.6	29.1	2.8	3.5
Fuels d/	7.4	22.2	23.6	7.5	8.0
Total primary commodities	25.0	48.8	52.7	4.6	5.1
Manufactures e/	2.4	7.9	9.1	8.3	9.3
Total all commodities	27.3	56.7	61.9	5.0	5.6

Source: UNCTAD, "The longer-term prospects for commodity exports from developing countries" (TD/9/Supp.2) 20 November 1967.

a/ SITC sections 0, 1 and 4, plus division 22.

b/ SITC section 2, except divisions 22, 27 and 28.

c/ SITC divisions 27, 28 and 68, except group 681.

d/ SITC section 3.

e/ SITC sections 5, 6, 7 and 8, except division 68 but including group 681.

/Table 5

Table 5

PROJECTED GROWTH RATES OF EXPORTS FROM ALL DEVELOPING COUNTRIES OF PRIMARY COMMODITIES OF SPECIAL INTEREST TO LATIN AMERICA a/

Commodity	Low assumption	High assumption
Coffee	2.1	2.3
Cocoa	3.0	3.3
Bananas	3.7	4.0
Sugar	1.4	2.8
Fats and oils	2.6	2.9
Meat	4.5	5.5
Grains	6.8	7.9
Cotton	1.7	2.5
Wool	1.6	1.9
Hides and skins	1.6	2.6
Non-ferrous metals	4.0	4.5
Iron and manganese ore	5.6	6.2

Source: UNCTAD, "Trade prospects and capital needs of developing countries" (TD/34.Supp.1/Add.1), 27 October 1967.

a/ These projections relate to the period 1960-75, except in the case of coffee and cocoa, for which the period considered is 1961-63 to 1975.

/The projections

The projections made by FAO are even more pessimistic with respect to the export prospects of such commodities from the developing countries. Although the projections, as already noted, are basically not of trade but of demand and production, they do provide a valuable picture of the major flows anticipated and of the problems of trade. World demand for food is projected to increase from 1965 to 1975 by 2.3 per cent a year on the low GDP assumption and by 2.7 per cent a year on the high assumption.13/ Hence, unless the trend of the period 1955-57 to 1964-66 (when the developed countries grew at a proportionally faster pace) is reversed, the future rate of growth of the developing countries' exports of food will be appreciably lower than the rate projected in table 4. Matters will probably become even worse, according to the FAO projections of world demand for food during the period 1975-85, when demand is expected to grow at a slightly lower rate than that projected for 1965-75.

Even more discouraging are the prospects for agricultural commodities and semi-manufactures (cotton, wool, jute, hard fibres and rubber), judging from the projected net import demand for such products in the high-income countries (developed market-economy countries, Soviet Union and eastern Europe), which over the period 1962-75 is expected at best to rise at an annual rate of 0.4 per cent, while at worst it could decline by 1.2 per cent annually. Of these products, wool and hard fibres would be the most affected.14/ Moreover, the projected growth rate of net import demand in these countries over the period 1962-75 for certain foodstuffs which are not subject to competition (coffee, cocoa, tea and bananas) is expected to be half that of the period 1953-63 and, especially in the case of bananas, is lower than the growth rate of exports given in table 5.15/

13/ FAO, Agricultural commodities - Projections for 1975 and 1985, op.cit. vol. 1, para. 54.

14/ Ibid., table 23. The document notes that projections of the net import demand for agricultural raw materials are rendered particularly hazardous in view of the uncertainties as to the future inroads of synthetics and other substitutes, and are not independent of the projections of import demand for manufactures (para 268).

15/ Ibid., table 19.

/These projections

These projections of the net import demand for agricultural commodities into the high-income countries confirm and even strengthen the possibility that the developing countries' exports will grow very slowly up to 1975, particularly in those countries - the majority of Latin American countries - in which agricultural exports are predominant. As the Director General of FAO points out in his Foreword, the FAO projections

> "...confirm and underline the poor prospects for the traditional agricultural exports of developing countries that emerged from FAO's earlier projections to 1970. These unfavorable prospects for markets in the high income countries reflect four basic factors: increasing competition from synthetics; the approach to saturation point in the consumption of many commodities; rising domestic production in the case of some commodities; and the comparatively slow rate of population growth."

The third of these factors, and to some extent the first as well, which have a very considerable effect on textile fibres and rubber, substantially and at times decisively influence the trade and production policies of the developed countries, both market-economy and socialist. These policies also affect other non-agricultural commodities (non-ferrous metals, petroleum). It should be recalled that one of the basic assumptions FAO used in making the projections was that the developed countries would not change their trade and production policies. If these policies are maintained, they will have a very adverse effect on the opportunities of the developing countries to export their commodities - especially temperate-zone agricultural commodities - to the developed countries, and also to the markets of other developing countries because of competition from the exportable surpluses of the developed countries. Paragraph 61 of the FAO document observes that:

> "For developed countries the study projected a continuation of the present tendency for food production as a whole to run ahead of the growth of their domestic demand. These countries had the capacity to increase output well beyond this level, even to the point of supplying the projected deficits in 1975 of the developing countries, at least for cereals."

/Consequently, the

Consequently, the growth prospects for the developing countries' exports of commodities would substantially improve if the developed countries changed their policies and really implemented measures to improve access to their markets and made other improvements in world trade of the kind repeatedly proposed in various meetings - particularly those of UNCTAD, GATT and FAO - as part of international action in the field of commodities.[16] However, little progress has so far been made in this direction, and very serious difficulties have to be overcome before the developed countries change their trade and production policies, especially those relating to temperate-zone agricultural commodities.

Sir Eric Wyndham White, the former Director General of GATT, considers that international trade policy prospects for such commodities are not very encouraging, observing that:

> "Not only in the Kennedy Round, but in every large-scale international negotiation over the past decade where an attempt has been made to include both agricultural and industrial products, the negotiations on the agricultural side have been severely limited by domestic policies of a social or political character, often backed by powerful and influential lobbies, and despite the negotiating rules carefully worked out, the results have fallen far short of the initial objective, which in the Kennedy Round was the creation of acceptable conditions of access to world markets for agricultural products..."
>
> "When governments met last November to formulate future policies and programmes they decided to intensify their efforts towards securing a greater degree of co-ordination of all aspects of national agricultural policies, including production, pricing and trade policies..."
>
> "Whether governments can formulate and enforce national agricultural policies, looking toward a better balance between traditional exporters and world markets is, of course, a debatable matter. In most countries farmers carry heavy political influence. They insist upon guaranteed prices with a known period of validity and on prices which should

16/ In this connexion, see infra, chapter II.

/ensure an

ensure an income not dissimilar from that obtainable in industry. But these simple tenets are increasingly translated into practice through national regulations of great complexity, involving not only harmful effects externally but also requiring increasingly heavy support from national treasuries and the taxpayers. Some of the policies lead inevitably to crisis situations, both domestically and internationally."17/

Consequently it does not appear very likely that net import demand for temperate-zone agricultural products in high-income countries will improve substantially through changes in production and trade policies that might make their markets more accessible to such products. The demand for traditional tropical crops, on the other hand, is in a number of cases close to saturation point and its growth will depend on population increase. The demand for agricultural commodities and semi-manufactures is particularly affected by competition from synthetics and other products of industrial origin, and also in some cases (e.g. cotton), by the domestic production of the developed countries.

The situation is not the same with respect to the demand and the import requirements of the developing countries. As pointed out in the FAO projections there may be scope for a worth-while expansion in trade in agricultural products amongst the developing countries themselves, and this in the long run offers the greatest market potential for such products, especially forest products and temperate-zone foodstuffs, such as meat, corn and other secondary cereals. For this to happen, certain serious obstacles will have to be overcome, particularly the financing of the new trade flows, the organization of commercial links between developing countries - which are still very limited - and, in the case of a number of important products, competition from the surpluses produced by the developed countries. Implementing the World Food Programme on a sufficiently broad scale, and adopting other measures proposed, inter alia, at UNCTAD and FAO meetings, would help a great deal to remove these obstacles.

17/ E.W. White, "The Outlook for World Trade Policy". In Aussenwirtschaft, June-September 1968, pp. 69-70.

/It cannot

It cannot be denied that international action with respect to primary products can help to expand trade opportunities for a certain number of countries and products. It must be recognized, however, that in countries whose exports remain limited to a few primary products, the growth of the export sector will be at the mercy of world demand for such products. This has been pointed out in various studies and projections of the trade gap, which show that the basic problem of the traditional export sector of the developing countries is not its lack of ability to expand, although this may be true for certain products in some countries but the weak growth rate of world demand.

Moreover, as already pointed out, it must be anticipated that the imports of the developed countries, and world trade in general, will grow at a slower pace over the coming decade than they have over the past ten or fifteen years. The impact of this will be felt most in the exports of the developing countries which are not expected to reach the annual growth rate (7.5 per cent) that they attained from 1962 to 1966. They will probably grow at only 3.9 per cent annually, which was the rate from 1954 to 1962. Prospects would be even dimmer if the payments problems of some of the major industrialized countries and the international monetary system persist and dimmer still if such countries adopted restrictive policies which took no account of the interests of the developing areas.

One may conclude by again quoting from the Foreword to the FAO projections:

> "Faster growth cannot be achieved in developing countries without a dynamic export sector. In view of the poor prospects for traditional exports to high income countries, development will depend on the degree of success in finding new export markets and new commodities to export."

Given the limited expansion potential of exports of commodities, even if new markets are found and positive and specific international measures are taken, the new products that can energize the developing countries' exports must of necessity be manufactures.

5. Exports of manufactures as an immediate trade policy objective

As noted above, faced with the loss of momentum of exports and the resulting insufficient growth of the purchasing power deriving from exports, the Latin American countries have had recourse to two principal measures: the curbing of imports - replacing them, at least in the larger countries, by local production - and external borrowing. Import substitution has undoubtedly constituted a powerful stimulus to industrial development, and in fact became the main driving force of economic development, which enabled the more advanced countries to achieve a growth rate that was higher than that of their exports. These measures represented a short-term policy, however, so that the countries adopting them found themselves in a vicious circle as far as their external sector was concerned. While import needs increased and became less flexible in structure as a result of industrialization, the particular features of this process, of trade and foreign exchange policy, and of development policy in general prevented these countries from overcoming the obstacles to a more accelerated growth of their capacity to import.

Accordingly, such a policy, far from stabilizing external sector, has accentuated the disequilibrium, which has come to be a serious bottleneck in the economic development of those countries that have made most progress in curbing and replacing imports and have therefore virtually exhausted their possibilities in that direction, at least with the present small domestic markets. The stepping up of economic development in these countries over the next decade will mean that their import needs will increase much faster than the purchasing power deriving from their exports has done in the past twenty years. It is estimated that for the gross national product to grow by 6 per cent annually in the ten years 1966-75, the goods and services that Argentina, Brazil, Colombia and Uruguay would need to import would increase at annual rates of 7.7, 5.9, 7.5 and 7 per cent respectively. If the growth target is 7 per cent, Argentina's import requirements would increase by 9.7 per cent annually and Brazil's by 9.1 per

/cent annually.[18]

cent annually.[18/] In order to overcome the limitations represented by the existing external sector bottleneck in achieving those growth rates for the gross national product, the countries concerned have no other alternative (with the present size of the domestic markets) but to increase their capacity to import commensurately with the growth of their import requirements. Since they must also service the external debt (interest and amortization) and remit profits on foreign capital, their foreign exchange earnings should grow at a much higher rate than their import requirements.

In most of the other countries, where the import situation was easier and the import coefficient generally rose instead of declining, the external bottleneck was far less pronounced and in some cases it might even be said to be practically non-existent as yet.

In the circumstances, for these countries to attain the same growth target of 6 per cent for the gross national product, the annual growth rate of their import requirements of goods and services is projected at 4 to 5 per cent. It will be noted that this rate is appreciably lower than that projected for the previous group of countries, but in this case too foreign exchange earnings would have to grow at a much faster rate to cover debt and foreign capital servicing. In both cases, foreign exchange receipts would have to be even higher if the terms of trade were to deteriorate further.

Requirements of foreign exchange would not increase at a regular pace throughout the period; they would necessarily grow much faster in the first phase, because of the need to give a strong initial impetus to the development process and to cover service payments on foreign capital and the external debt. These larger foreign exchange receipts must be obtained primarily over the medium and long term, through exports of goods

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18/ See ECLA, "The trade and domestic savings gaps and structural unemployment in Latin America" (E/CN.12/831). These and other projections in respect of import requirements are based on the past relationship between the growth of imports of goods and services on the one hand and that of the gross national product and gross fixed investment on the other, taking into account the extent to which the countries have restricted and replaced imports in the past.

/and services,

and services, which means that the Latin American countries must expand their exports much more rapidly than over the past twenty years. It does not seem feasible for this objective to be fully attained within the short term however, so inevitably recourse must be had to external financing, unless the economic development target is reduced. It must be kept well in mind that external financing is merely a temporary solution; while in the short term it solves the problem of the insufficient capacity to import and accelerates capital formation, in the long run it means that exports must grow even faster in order to cover debt and foreign capital servicing. Accordingly, the basic goal of such financing should be to achieve a net saving of foreign exchange through import substitution, or to promote a faster expansion of exports of goods and services, which is preferable in view of the limitations of import substitution. It has already been noted that, in the light of the unfavourable prospects of world commodity trade, the Latin American countries cannot be expected to increase their traditional exports at more than 3 or 4 per cent annually. This rate might be slightly higher if the measures repeatedly proposed in the sphere of international action in favour of primary products from developing countries were to materialize; but even so - at least in the majority of the Latin American countries - it would still be far below the rates at which their exports ought to expand. The possibilities of attaining such rates depend mainly, among other things, on the ability of the Latin American countries to develop their exports of manufactures, which are the most dynamic sector of international trade.

The basic trade policy measures of the Latin American countries should be directed to the attainment of that goal. This does not mean that the traditional exports should be neglected; the efforts to solve the well-known problems in that connexion must continue, in particular through the effective implementation of measures that both developed and developing countries have committed themselves to adopt. It is recognized, however, that manufactures have a vital part to play in boosting exports of the Latin American countries and in helping substantially to eliminating the existing or potential external sector bottleneck.

/Even if

Even if the Latin American countries were able to attain an adequate growth rate for their commodity exports, there are other important reasons underlying the imperative need to expand their exports of manufactures at an accelerated pace. Among these reasons, which relate mainly to the various links between exports of manufactures and the economic development process, are the following:

(a) Diversification of the composition of exports and, consequently, a reduction in the degree of external vulnerability, especially in relation to fluctuations in volume and price; a lessening of the long-standing trend towards a deterioration in the terms of trade, a particular feature of primary commodities, and better chances of a diversification of markets.

(b) Expansion of markets, which would help to overcome the obstacles inherent in the domestic market to establishing plants of economic size, obtaining economies of scale, utilizing idle installed capacity, increasing the possibilities of specialization and, in general, improving the productivity of industries and efficiency in the allocation and use of resources.

(c) The expansion of markets through exports of manufactures is vital, and even imperative, in order to overcome the limitations which the small size of the domestic market represent for the establishment of technologically more advanced industries and for the assimilation of new techniques in the Latin American countries. Without broader markets, the countries of the region would remain excluded from present technological progress. Regional integration would be the quickest and most accessible way of achieving this goal.

(d) World market competition would compel industries to become more efficient, to improve and standardize the quality of their products, etc. This, combined with the import policy measures that would have to be adopted - particularly in regard to tariff protection - would be a powerful stimulus to rationalizing the existing structure of industry and correcting the serious distortions that have characterized the industrial development process in the Latin American countries.

(e) Only is so far as the Latin American countries develop their exports of manufactures will they be able to cast off the traditional pattern of the international division of labour and obtain a fairer share of the benefits deriving from technological progress.

/It is

It is no easy task to develop exports of manufactures at an accelerated pace; on the contrary, it presents serious obstacles, especially in regard to supply and marketing conditions, which differ in many ways from those relating to primary products. Although some of these obstacles have been referred to earlier, it is useful to examine the most important of them in greater detail:

(a) The more generalized feature is the high level of industrial costs. This is partly due to the small size of the national markets and partly to heavy tariff protection, particularly for activities supplying inputs to manufacturing industry. Moreover, as the high tariff barriers have virtually done away with foreign competition, local industries have not been compelled to rationalize their structure or make technical innovations to raise productivity. Nor is there much incentive to improve productivity when, as often happens in local industries, there is a substantial margin of capacity lying idle.

(b) Marketing is another area that bristles with problems. While competitive costs and prices are necessary to obtain a foothold on foreign markets, they are by no means an open sesame, even when manufactures from the developing countries are granted tariff concessions in the developed markets. Apart from being competitively priced, exports of manufactures must satisfy other standards of quality, presentation and uniformity, etc. Constant market research is also necessary to adopt production to consumer preferences and habits. All this entails a radical change in the outlook of the Latin American entrepreneurs, who must develop an export mentality and keep their eyes fixed on foreign markets as the goal of their activities and efforts.[19/] If they are to make a systematic attempt to open up

19/ The following comments illustrate the situation in Latin American industry: On various occasions in the past Argentina has seen a boom in its exports of non-traditional products but they have invariably been short-lived and sales of such goods have dropped back to their customary low levels. In our opinion, the blame for these ups and downs must be laid entirely on the impermanence of prevailing conditions. For instance, in 1959 and 1962, the heavy devaluation of Argentine currency unquestionably offered a remarkable opportunity to exports of non-traditional products. less because of the profits to be reaped - such transactions were indeed often carried out at a loss - than because the devaluations plunged the national market into a deep depression and left it virtually without liquidity. Exports were thus the ideal means of disposing of unsaleable stock for immediate liquid returns, which was advantageous even if they were sold at a loss. After a time, the domestic market became more liquid and thus began to revive, and this no sooner happened than industrialists lost interest in foreign markets and non-traditional exports slumped once again. ("Las exportaciones nuevas", <u>Panorama de la Economía Argentina</u>) N° 39 (Buenos Aires, 1968).

/foreign markets

foreign markets, the work of promotion, whether undertaken by associations of industrialists or by public or semi-public organizations, must have the necessary continuity to persuade them to run the business and financial risks of exporting. Continuity and security for favourable export conditions signify various internal measures, such as tax exemptions.

(c) Lastly, there are the barriers put up by the host of restrictive business practices used by foreign firms and their branches or affiliates in the developing countries (sharing of markets, export embargoes, limitations on the use of patents, price agreements, and so forth). As these practices are based on private agreements whose terms are seldom disclosed, they are not easy to identify. However, the problem has now become so gigantic that the developing countries pushed through resolution 25 (II) at the second session of UNCTAD against the will of the majority of the developed countries. Under the terms of that resolution, UNCTAD decided that a study should be made of the restrictive business practices adopted by private enterprises of the developed countries, with special reference to the effect of such practices on the export interests of the developing countries.[20/]

In short, the main objective of Latin American trade policy in the next decade must be to metamorphose the structure of exports by expanding exports of manufactures at a rapid rate, not merely as the sole means of remedying the chronic weakness of the external sector but also with a view to transforming them into the mainspring of their economic development, as import substitution policy cannot do this properly unaided, even in countries where there is still a wide margin for substitution. This objective is primarily for export policy, and is one of a whole set of goals to be attained by trade policy. These goals are closely interrelated, particularly in matters of imports and exchange policy, external financing, modes of transferring technology and regional integration.

The way in which these objectives are defined and the mode of achieving them necessitate a thorough revision and rethinking of both the traditional

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20/ In compliance with this resolution, the UNCTAD secretariat prepared a detailed outline on the nature and scope of the study requested, and a preliminary list of the business practices to be examined. See the report by the UNCTAD secretariat on "Restrictive business practices" (TD/B/C.2/54 and Add. 1), (October 1968).

trade policy and basic aspects of the development policy of the Latin American countries, particularly in matters of industrialization. Their development policy should no longer be founded entirely on import substitution, and their industries should not be geared solely to domestic markets. In order to export a constant and ever-increasing flow of manufactures it is essential to rationalize the structure of industry, raise industrial efficiency appreciably, lower costs, and promote specialization in industries in which a country has comparative advantages, in short, to eliminate or attenuate the factors which have been responsible for high-cost industrial growth. Much stricter quality controls must also be applied, production standardized and a regular flow of supplies, guaranteed.

The starting-point for the revision and reshaping of trade policy should be recognition of the need to base it, not as before on circumstantial factors and piecemeal short-term measures, but on long-term objectives that would be mutually complementary and form an integral part of economic development policy. Trade policy should also be equipped with the means to carry out a coherent and systematic plan of action. In order to undertake this task of revision on the broad lines indicated above, it would be necessary for the Latin American countries to have a more satisfactory institutional organization for policy framing and execution than most of them possess at present. It is mainly distinguished in fact, by the wide variety of agencies that are concerned in some way with foreign trade, whose functions and activities are ill-defined or unco-ordinated, with duplication gaps and contradictions that preclude the full achievement of policy objectives.

This report does not offer sufficient scope for a detailed definition of the principles on which trade policy should be reshaped in such aspects as imports, tariff protection, foreign exchange systems, external credit and private foreign investment. In each of these areas it is necessary to make an extensive survey of the problems and variety of situations to be found in the region. Where general remarks have been made on them, the object has been to draw attention to some negative factors of the policy followed up to now and, hence, to the crying need for change. Some special problems, such as those presented by the forms or means of transferring

/technology, have

technology, have proved impossible to consider so far, even superficially, although they are undoubtedly important for speeding up the industrial development process in Latin America. Efforts should be made to take up these questions as soon as possible.

This chapter must not be concluded, however, without pointing out that the aim of sharply accelerating the growth rate of exports of manufactures in the near future is associated with the process of regional economic integration. The establishment of a regional market or several subregional markets, would not only mark a tremendous step towards the solution of certain problems, such as those arising from the relatively limited size of domestic markets, but would be highly advantegeous in that the institutional framework of a free-trade area or customs union represents a guarantee for the continuity of the regulations governing the market access of member countries, and would thus facilitate long-term investment planning. The expansion of national markets would also open up great possibilities for intra-industrial specialization, which would enable plant and equipment to be used more efficiently. Lastly, the broadening of such markets through integration would have the equally important advantage of introducing an element of competition. This would force enterprises to be more efficient while providing them with a protected market in which to acquire the necessary experience to storm overseas markets.

/Appendix

Appendix

METHODOLOGICAL NOTE ON THE CLASSIFICATION OF PRODUCTS BY PRIMARY COMMODITIES AND MANUFACTURES

In table 2, all the products included in sections 0 to 4 of the Standard International Trade Classification (SITC)(food, beverages and tobacco, crude materials and fuels), including processed and semi-processed items, are treated as primary commodities, and so are those covered by SITC division 68 (non-ferrous metals, unworked and partly worked). The same table classifies as manufactures (including semi-manufactures, unless otherwise indicated) all products comprised in sections 5 to 8 (excluding division 68). This classification is similar to that used by the UNCTAD Secretariat in a recent publication,*/ and by GATT in general in its annual surveys of international trade. Division 68, however, is included by GATT among manufactures instead of among primary commodities.

Consequently, both in table 2 and in the tables appearing in chapter III of the present study on trade in manufactures, the primary commodities category includes many products which have undergone processing or semi-manufacturing such as might warrant their classification among manufactures and semi-manufactures. Cases in point are meat, fish, fruit, vegetables and other processed foods (particularly those packed in airtight containers), beverages, and petroleum products. They are in fact grouped with manufactures and semi-manufactures in a document **/ prepared by the UNCTAD Secretariat for the first session of the Committee on Manufactures of the Trade and Development Board. In this paper, in addition to the products in SITC division 68, many others pertaining to sections 0 to 4 were provisionally classified as manufactures and semi-manufactures (for instance, meal and flour and other cereal preparations; dried fruit;

*/ See Commodity Survey 1967 (United Nations publication, Sales N°: E.68.II.D.7).

**/ See "Action relating to the report of the Special Committee on Preferences. Definition of primary commodities, semi-manufactures and manufactures" (TD/B/C.2/3), July 1965.

/cocoa powder

cocoa powder; cocoa butter and cocoa paste; margarine and lard; wood, shaped or simply worked, etc.), together with non-ferrous metals. This criterion seems to have been modified, however.

Hence, it is easy to see that serious difficulties and discrepancies are encountered in any attempt to define what should be understood by manufactures and semi-manufactures, especially when the object is their precise identification. The decision adopted on this point will make a great difference to the export figures obtained for these products and, therefore, for primary commodities. The distinction drawn in table 2 above is grounded on two special considerations.

In the first place, international trade in many of the processed primary commodities (food products, raw materials, fuels) in SITC sections 0 to 4, and in non-ferrous metals (copper, zinc, lead, etc., in bars and other unworked or partly worked forms) is characterized by trends and problems closely resembling and even identical with those of trade in primary commodities proper, i.e., unprocessed products. These common features include great inelasticity of demand, or marked dependence of demand on the level of economic activity in the developed countries, very sharp price fluctuations, etc. Furthermore, the transformation processes applied to these products are relatively simple as a rule; the value added is small and the impact on industrial development only slight. The same is true even of the products in these groups which undergo fairly complex processing. In other words, from the standpoint both of the internal and of the external sector they are more closely assimilable in their evolution and repercussions to primary commodities than to manufactures proper.

Secondly, for most of the Latin American countries the statistical data available are not sufficiently disaggregated and comparable at the level of SITC groups and items for a reclassification to be attempted; and in addition, any criterion adopted to distinguish between primary commodities and manufactures is open to criticism. Moreover, the great majority of the processed primary commodities

/which might

which might be regarded as manufactures or semi-manufactures and are of export interest to Latin America are already traditional items in the region's export trade (although the same might be said of certain manufactures and semi-manufactures included in SITC sections 5 *et seq.*). Cases in point are quebracho extract from Argentina and Paraguay, leather from Argentina, Brazil and Uruguay, and even textile fibre yarns and thread from Mexico.

These considerations should be carefully borne in mind for the purpose of interpreting the figures presented in table 2 and the more detailed analysis of Latin America's exports of manufactured goods. These exports would substantially increase, and in the case of several countries would constitute the bulk of their total exports, if processed or semi-manufactured primary commodities were included in the manufactures category. This is true of Latin America's exports of meat in containers and meat preparations (SITC 013), the value of which exceeds 100 million dollars, and which would greatly affect the composition of exports from Argentina, Brazil, Paraguay and Uruguay; of preserved fruit and fruit preparations (SITC 053), exports of which amount to 25 million dollars (Mexico's share being especially large); and of petroleum products, copper bars and other non-ferrous metals, all of which are exported in much larger quantities.

/Chapter II

Chapter II

INTERNATIONAL ACTION IN RELATION TO PRIMARY PRODUCTS

In the last ten years there has been much discussion of the international measures that might be adopted to expand the developing countries' volume of trade. In general, the stage of diagnosing problems and pin-pointing solutions has been largely completed. Therefore, efforts should now be concentrated on the preparation and conduct of negotiations concerning specific measures, and on the formulation of action programmes laying down the procedures and time-tables for further negotiations on measures still requiring consultation. These were the expectations at the second session of UNCTAD, which were to a great extent frustrated as far as primary products were concerned. It is significant that the two most important events connected with the trade relations of developing countries (the Kennedy Round and the second session of UNCTAD) ended without achieving much progress in questions related to the developing countries' trade in agricultural commodities. This situation is in sharp contrast to the advances made in the liberalization of trade in manufactures between the developed areas, both through a series of customs tariff negotiations of GATT and within the European Economic Community and the European Free Trade Association. Recognition of the fact that under these conditions the gap between developed and developing countries is widening has deepened the anxiety to obtain more favourable results regarding some of the problems that have been most discussed in recent years. The problems connected with primary products relate mainly to: (1) measures for stabilizing world markets; (2) measures for improving conditions of access to markets; (3) diversification of exports from developing countries; and (4) elimination of systems of special preferences. The progress made in each of these fields is described briefly below.

/1. Market

1. Market stabilization measures

International action in this field has taken two main forms: negotiation of international commodity agreements or arrangements, and the creation and operation of international buffer stocks. The decisions adopted on these matters at the second session of UNCTAD were limited to an urgent recommendation to conclude the sugar and cocoa negotiations and to carry out studies and consultations on market problems affecting various products, and the recommendation to explore the possibility of setting up a buffer stock scheme for jute. Clearly, the subjects or points on which agreement was reached were to some extent of secondary importance, since on substantive questions such as the financing of reserves, price policy, trade liberalization, etc., it was not possible to reach conclusions reflecting any progress with respect to existing commitments or recommendations. In some cases it was even impossible to reaffirm the validity of principles or recommendations included in the Final Act of the first UNCTAD session. The agreement on the sugar and cocoa negotiations merely expressed the hope that such negotiations would be successfully concluded, not a very ambitious objective if it is considered that, in the one case, a new agreement was being negotiated on a commodity for which this kind of arrangement already existed and, in the other, the exploratory negotiations had been proceeding since 1958. The decision adopted at New Delhi was partly fulfilled at the end of Septem ber 1968, when the new sugar agreement was successfully negotiated. Since the same result has not yet been achieved with respect to the cocoa agreement, nor have specific proposals been made for similar arrangements regarding other commodities, it may well be wondered what prospects international co-operation really holds out in this field. Actually, the list of commodities covered by international agreements includes only sugar, coffee, tin, wheat and olive oil. From the standpoint of the developing countries as a whole, international agreements have been successfully negotiated in only a very few cases and, even more important, no new commodity has been added to those on which agreements already existed before the first session of UNCTAD.

/This would

This would appear to lead to the conclusion that the prospects of extending international agreements to a larger number and wider range of commodities are not too encouraging. The position adopted by the developing countries at New Delhi, however, was to stress the importance of continuing the efforts to conclude new agreements, to extend inter-governmental consultations to commodities not covered by specialized international bodies, to recommend that informal arrangements be amplified and strengthened, and to invite all the Governments members of UNCTAD to join the existing international commodity organizations, in order to strengthen their activities. Resolutions 16 (II) and 18 (II), which cover all these points and were unanimously adopted at the second session of UNCTAD, constitute a commitment the fulfilment of which might substantially modify the prospects referred to above.

In this respect, a certain amount of progress has indeed been made. Recently, the study groups and similar organizations on bananas, citrus fruit, oil seeds, oils and fats, rubber, jute, kenaf and related fibres, cotton, and tungsten have considerably stepped up their activities. Recently, too, the first steps have been taken to set up study groups on other commodities, and informal consultations have been held on wine and tea.[1/] The work of the study groups provides a good basis for initiating exploratory negotiations or preliminary consultations on the specific problems of each commodity and, if all the countries interested in trade in the commodity concerned were to join those study groups, their possibilities of action would be decidedly enhanced. It should also be recognized that while it is desirable to negotiate agreements on as many commodities as possible, in some cases practical difficulties may jeopardize the success of such negotiations; it would therefore be advisable to broaden the terms of reference of the study groups or similar bodies, entrusting them with specific and more comprehensive activities than discussion and consultation.

1/ A summary of all these activities will be found in the "Commodity survey 1968" (TD/B/C.1/50), issued by the secretariat of UNCTAD on 26 October 1968, and in the FAO Commodity Review 1968 (Rome, 1968).

There are other reasons for concluding that, although the number of commodity agreements has not increased and no new commodities have been included in the existing agreements, there have been certain advances which should not be overlooked. The fact is that between the type of agreements referred to in the Havana Charter (on the principles of which the negotiations prior to the first UNCTAD session were based) and those negotiated recently, even if they were only renewals or renegotiations of previous agreements, there are substantial differences which reflect the new scale of values and conceptual advances that have developed out of the discussions of UNCTAD and its permanent machinery on the problems of developing countries. Commodity agreements are no longer regarded as emergency measures to deal with temporary market disruptions. In the case of a great many primary products, recognition of the fact that market disruption appears to be the rule rather than the exception has led to the conviction that agreements can and should have a permanent stabilizing function as instruments for organizing the world market for certain commodities. The progress achieved with respect to agreements that have recently been renewed consists in their not being limited to this stabilizing function, interpreted as keeping the prices of the commodity concerned within previously established margins. New functions and objectives have been added. Thus, the new coffee agreement provides for a diversification fund for financing crop substitution programmes in the producer countries. In the new sugar agreement, on the one hand, general norms are established regarding price support policies and export subsidies and, on the other hand, certain developed countries undertake to maintain a minimum level of imports, to set a maximum limit on the area used for growing sugar beet, or to meet a certain proportion of their domestic consumption and the increases therein from imports. Lastly, the new wheat trade agreement is supplemented by a convention on food aid for developing countries, by virtue of which the countries parties to the convention agree to contribute 4.5 million tons of grain for human consumption annually. These innovations undoubtedly constitute progress in the conception of commodity agreements and provide guidelines for future negotiations on other products.

/The financing

The financing and operation of international buffer stocks was another point on which no decision was adopted at the second session of UNCTAD. Disagreement centred mainly on the scope of their operations and the part they can play in the market, and also on the methods of financing. It was deemed convenient to await the conclusions of a study on the stabilization of commodity prices which the International Monetary Fund (IMF) and the International Bank for Reconstruction and Development (IBRD), at their annual meeting in September 1967, decided to undertake. With this end in view, in resolution 19 (II) UNCTAD recommended that the financing of buffer stocks should be one of the subjects of that study. Moreover, as already mentioned, in resolution 16 (II) it was recommended that the study group on jute, kenaf and related fibres should explore the possibility of setting up a buffer stock scheme for jute.

Recent progress in this field is very limited. The first part of the above study was presented at the annual meeting of IBRD and IMF, held in September 1968, and it was announced that the conclusions regarding the action which might be adopted by those agencies in stabilizing commodity markets would be made known in mid-1969. It would appear that these organizations are prepared to help finance the buffer stocks, which in some respects would come to supplement in a world context, and particularly in the context of IMF, the system of compensatory credit that was instituted in 1963 and was amended in 1966 when easier credit terms were established.

Further, The Committee on Commodities of UNCTAD, at its third session held at the end of 1968, approved the text concerning buffer stocks which is summarized below:2/

(a) A buffer stock should be equipped with adequate funds, through a regular income so long as this is required. This regular income should be provided in a form that is equitable for all parties concerned, and which does not impose an excessive burden on developing countries;

2/ Trade and Development Board, UNCTAD, Report of the Committee on Commodities on its third session (TD/B/202), 14 November 1968.

/(b) Each

(b) Each buffer stock should define in what conditions intervention should take place. Provision should be made where appropriate for such intervention of the buffer stock to take place in any sector of the market in order to bring its full stabilizing impact to bear;

(c) A buffer stock should have sufficient flexibility within its available resources to be able to contribute to the defence of minimum and maximum prices, taking into account other stabilizing techniques adopted; and

(d) When pre-financing of buffer stocks becomes necessary all financing possibilities (resources from international financing organizations, private capital, government loans or voluntary contributions from countries) should be considered.

The differences of opinion that arose on this subject at New Delhi were mainly connected with the developing countries' proposals that the principles governing the buffer stock's intervention in the market should be more explicitly defined, and that the developed countries and international financing institutions should provide the resources for pre-financing the buffer stocks. The compromise text approved by the Committee on Commodities partly satisfies the divergent positions adopted, in maintaining the principle sustained by the developed countries that the buffer stock's sphere of operations and method of intervention in the market should be defined in each particular case, and in supporting the developing countries' view that the buffer stock might operate in any sector of the market. As regards the question of pre-financing, the agreed text adds nothing new, probably pending information as to what the international financing institutions are prepared to do in this field.

2. Measures to improve access to markets

Matters relating to the conditions of access to markets are at the root of the export problems of the developing countries. Without doubt an improvement in such conditions would have a favourable effect on the long-term trends of their exports, particularly as regards products that compete with the domestic production of the developed countries. The developing countries placed their greatest hopes for a trade liberalization programme for agricultural products on the Kennedy Round, since it was repeatedly stated throughout the lengthy negotiations that tariff and non-tariff concessions would be granted that would stimulate the expansion of their trade. As is known, such hopes were not realized; few concessions were made on agricultural products and fewer still on those of interest to developing countries.[3] However, some of the developed countries announced that they intended to apply the concessions all at once; i.e. without phasing out the reductions over a five-year period, in response to one of the requests made by the developing countries.[4] This is the only step forward in recent years in the reduction of tariff barriers for commodities of interest to the developing countries.

The second session of UNCTAD also failed to achieve tangible results in this respect. The draft resolutions or recommendations presented did not meet with the support of all countries, despite the fact that some of them merely repeated the wording of recommendations or commitments already adopted within UNCTAD and GATT. Simply repeating recommendations, however, serves no really useful purpose unless it is accompanied by measures to ensure that they are implemented more effectively. For example, the most frequently quoted recommendation relating to the problems of access to markets was the "stand-still" recommendation, which was included, together with other formal international commitments, in the Final Act of the first session of UNCTAD and in Part IV of the General Agreement on Tariffs and

3/ See UNCTAD, "The Kennedy Round: Preliminary evaluation of the results with special reference to developing countries". (TD/6 and supplements 1-5).

4/ GATT, Advance implementation of Kennedy Round Tariff Reduction on products of export interest to developing countries. Notifications by Governments (L/2862/Rev.1, 2 February 1968). However, at the twenty-fifth conference of the Contracting Parties of GATT (November 1968) the developing countries indicated that in most cases there had been so far no advance implementation of the tariff reduction.

/Trade. At

Trade. At New Delhi, the developing countries proposed, in a draft resolution on trade liberalization and access to markets, the reaffirmation of the principle that the developed countries would not introduce new tariff or non-tariff barriers and that those which had been introduced after the first session of UNCTAD would be eliminated by 31 December 1968. It is evident, however, that fixing a relatively short period for the elimination of customs tariffs and equivalent charges, as occurred on previous occasions, does not automatically ensure implementation of the recommendation. It might perhaps have been more effective to have approved the procedure suggested in another draft recommendation presented by a number of developed countries under which the principle that no new barriers should be introduced and none of the existing barriers raised was to be reaffirmed, while at the same time the Secretary General of UNCTAD was to be instructed to prepare, in conjunction with GATT, a complete list of all the tariff and non-tariff restrictions established by the developed countries since the first session of UNCTAD in respect of the commodities of the developing countries. This list would have been examined during the third session of the Committee on Commodities which, after a case-by-case study, would have set specific targets for the elimination of all restrictions incompatible with the "standstill" recommendation.

The product-by-product study of restrictions seems to be the only approach that is likely to achieve real results in the field of primary products. This fact was recognized at the preparatory meetings of the Trade and Development Board prior to the second session of UNCTAD, not with respect to compliance with the "standstill" recommendation, but with respect to the general problem of the liberalization of trade in primary products exported by the developing countries. Clearly, the fact that restrictions are to be studied case by case does not necessarily mean that the negotiations for their reduction or elimination must similarly be carried out product by product; they could quite easily be held simultaneously on a number of commodities of interest to a particular group of countries. There is tacit agreement that progress in the liberalization and improvement

/of the

of the conditions of access to the markets of the developed countries for the primary products of the developing countries must be achieved in this way, since neither at the seventh session of the Trade and Development Board nor at the third session of the Committee on Commodities, was the topic raised.

While as yet no positive results have been forthcoming, the efforts made by GATT in this field are worthy of mention. At the twenty-fourth session of GATT (November 1967) the Contracting Parties agreed to establish a committee to examine all problems relating to agricultural production and trade policies and to reactivate the Special Group on Tropical Products to analyze the problems of tropical products and suggest measures to solve them. The Committee on Agriculture (which held two meetings in 1968) concentrated its activities initially on the compilation of data on production policies, systems of protection and support (both domestic and international), consumption, prices and international trade with respect to cereals, meat, fruit, vegetable seeds and oils, tobacco and wine. At its second meeting, the Committee decided to divide these topics into two main categories: the first covering measures for protecting agriculture, and the second covering international markets including the study of export price and subsidy policies and quantitative restrictions. The value of this approach is that the products covered are of interest not only to a certain number of developing countries but also - and to a marked degree - to a group of developed countries (including the United States, Canada, Australia and New Zealand). With regard to the Special Group on Tropical Products, it should be recalled that it had been hoped that agreement might be reached during the Kennedy Round to permit duty-free entry for tropical products to the developed countries and the progressive reduction of internal charges and fiscal duties on them, in line with a programme prepared by the Special Group in 1963. Since this aim had not been achieved, it was agreed to resume the activities of the Group with the same objectives: the study of the tariff and non-tariff barriers on tropical products, including internal charges and duties, and of problems relating to the existence of special preferential arrangements for some products. It is to be hoped that the study of the effects of internal charges and fiscal duties will carefully examine certain alternatives: whether, for example, as proposed hitherto, the objective should be to eliminate such charges and duties, or whether it should be to maintain them and transfer the resulting income to the developing country exporting the goods concerned. This would mean trying to establish whether, given the relative inelasticity of demand for some of these products, simply eliminating internal charges would result in lower expenditure by consumers, without any perceptible effect on the volume of consumption. If this were the case, the second alternative, i.e. to transfer the revenue from such charges to the developing countries would be more advisable.

Discussions on matters relating to the improvement of conditions of access to markets have usually centred around the restrictions existing in the developed countries. It should not be forgotten, however, that such restrictions are also present - although in a different way - in trade between the developing countries. With the co-operation of the Secretariats of UNCTAD and GATT, efforts have been made to expand and liberalize trade between the developing countries, in the GATT Committee on Trade Negotiations among Developing Countries. These initiatives have involved bilateral and multilateral consultations in which thirty-two developing countries have participated (including ten non-members of GATT). It is hoped that in early 1969 it will be possible to agree on a date for the exchange of lists of concessions requested and offered, thus getting the negotiation process under way.[5/]

It has often been stated in connexion with the restrictions maintained by the developing countries that it would very probably not be possible to organize a new round of tariff negotiations in the near future. Since only a short time has elapsed since the Kennedy Round, there would certainly be no point in starting to prepare further negotiations of the same type. However, there is a growing consensus that the problems of trade in agricultural products require a comprehensive approach; i.e. an approach

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5/ The Latin American countries that have already submitted their lists are Argentina, Bolivia, Chile, Cuba, Peru, Uruguay and Venezuela. Other Latin American countries that participated in the negotiations but have still to submit their lists are Colombia, Dominican Republic, Jamaica, Mexico and Trinidad and Tobago.

/that starts

that starts by examining the principles behind national agricultural policies. As mentioned earlier, it has been agreed that this will be the approach of the Committee on Agriculture of GATT, and it is to be hoped that the corollary to the work of this Committee will be multilateral negotiations covering not merely tariffs but non-tariff barriers, price policies, subsidies, etc. Although the outlook for the adoption of substantive changes in these policies is somewhat bleak,[6/] it must be recognized that the problems not only relate to the trade opportunities that might accrue to the developing countries, but also, given the high cost of financing them, create domestic problems for the developed countries.

3. Export diversification programmes

While measures to diversify production and exports are a part of general economic development policy, they have aspects that are closely linked to international trade policy. At its third session, the UNCTAD Committee on Commodities concluded a discussion which had started at New Delhi on the aims and orientation of diversification programmes, and reached agreement, *inter alia*, on the following points:[7/]

(a) Diversification should be both horizontal (into other products) and vertical (into more highly processed products);

6/ At the end of 1968, the general outline of a plan for agricultural reform in the ECE countries was released. The plan is to cover a ten-year period and it is hoped that it will help to raise agricultural productivity and the income of the rural population. The plan also provides for changes in the structure of markets and in inter-Community trade, all of which may have appreciable effects on the exports of the developing countries. "The Commission of the European Community estimates that the new agricultural measures will cost 2,500 million dollars, annually. It recalls that in 1969 measures designed to improve agricultural structures will cost the six member States 2,200 million dollars, while the European Community will allocate 2,300 million dollars during the year to supprt agricultural markets. Under the Commission's plan for agricultural reform, this total of 4,500 million dollars should fall to an annual sum not exceeding 2,000 million dollars from 1980 onwards, including a sum of 750 million for supporting markets. It will not, however, be possible to make reductions immediately, and costs will begin to rise, probably topping off between 1973 and 1975. Nevertheless, the average annual figure between 1970 and 1980 will be 2,500 million dollars". *Comunidad Europea*, año V, No. 44 (February 1969).

7/ See *Report of the Committee on Commodities on its third session*, op.cit., annex II.

/(b) Taking

(b) Taking into account the need for balanced economic development, diversification programmes should aim at the expansion of production of manufactures and semi-manufactures by the developing countries, at increasing their exports of such products, particularly those with relatively dynamic demand conditions on the world market, and at increasing food production in food deficient countries;

(c) Diversification programmes should be an integral part of any accepted scheme for production control that is adopted within the context of international commodity arrangements;

(d) The developed countries and international financial institutions should give increased attention to the diversification problems of the developing countries; in order to supplement the resources provided by the developing countries themselves;

(e) Highest priority should be given to diversification in the programmes at inter-regional, regional and sub-regional levels in the process of trade expansion and economic integration among developing countries;

(f) The Secretary-General of UNCTAD, in co-operation with the appropriate specialized agencies, should make proposals to the Committee on Commodities for studies on the diversification problems relevant to products facing excess supply in the world market or competition from synthetics and substitutes;

(g) In the context of vertical diversification it is recognized that the expansion of processing industries in developing countries could result in increased export earnings. Account should be taken by the developed countries of the possibility of bringing about certain readjustments in the structure of their industry or measures to increase and diversify imports from the developing countries;

(h) The successful implementation of diversification programmes would, in general, be strengthened by possibilities of improved access to external markets, or in the case of socialist countries of Eastern Europe by increasing imports of the relevant products of developing countries.

/Without underrating

Without underrating the importance of this agreement on the aims of diversification programmes, it must be recognized that nothing of any substance has been added in the way of new concepts, nor have the developed or the developing countries undertaken any commitments. For example, in referring to vertical diversification, it would have been useful to reaffirm the urgent need to establish a system of general preferences for the manufactures and semi-manufactures of the developing countries, as a means of encouraging diversification programmes. Moreover, it is known that the greatest external obstacles to the diversification of its exports of the developing countries reside in the progressive escalation of the customs tariffs, which rise in accordance with the degree of processing of primary products. However, no reference was made to this problem in the approved text, despite the fact that it is in precisely such fields that tariff measures by the developed countries could help to increase the export earnings of the developing countries.8/

Horizontal diversification should be taken to refer not just to the commodity sector but mainly to industrial products. This is not only because the industrial sector contains the products with the most dynamic demand in world trade, but also because diversification within the primary sector is possible only within relatively narrow limits. In the case of many Latin American countries where no more than two or three commodities provide the major share of total export income, it is possible that diversification within the primary sector might offer some immediate advantages, at least by slightly reducing the sector's extreme vulnerability to external market fluctuations. It is clear, moreover, that world demand prospects appear to be favourable for certain primary products, such as cereals, meat, non-ferrous metals, iron and manganese ores, and liquid fuels. Hence those countries which have sufficient resources to diversify

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8/ It should be remembered that the effective charges paid on processed goods actually rise when the developing countries gain free access to the markets of developed countries or are granted tariff reductions for primary commodities used as raw material for processed goods when little or no duty is paid on the raw materials from which the processed goods are manufactured. This means that what a developing country may gain in exports through improved access for its primary products may be more than cancelled out by what it loses in opportunities to export goods with a higher value added.

their production to include such products will be in a position to achieve more favourable rates of expansion for their total exports. However, for a good number of other primary products - mainly tropical-zone agricultural goods and raw materials facing competition from synthetics - the long-term trends of world demand indicate relatively low rates of growth. Thus, the countries which can diversify only within these groups of primary products would probably not be able to raise the growth rate of their total exports to any appreciable extent. All this means that diversification programmes within the primary sector should be prepared on at least a regional or a sub-regional basis, so that a minimum of co-ordination between national policies is achieved. Otherwise, if a number of countries simultaneously decide to diversify towards a particular type of production, then surpluses might be created. In this respect, the studies to be undertaken by the UNCTAD secretariat should constitute a good point of departure for clarifying some of the problems raised by diversification programmes.

The text approved by the Committee on Commodities states that specific funds for diversification should be one of the features of commodity arrangements and that diversification programmes should be an integral part of any scheme for production control that is adopted in the context of commodity arrangements. The Coffee Diversification Fund, established by the new coffee agreement, constitutes the first application of these principles which may well be extended to other products if the experience now beginning to be acquired in respect of coffee turns out to be successful.

Whenever the question of the diversification of the developing countries' exports is discussed, it is concluded that diversification should preferably although not exclusively be based on the promotion of manufacturing activities. This means that diversification programmes must fit into the general context of the economic development programmes of each country, or to be more precise, that they must be one of the components of over-all development strategy.

/4. Special

4. Special preferences

Negotiations are under way for renewing the Yaoundé Convention and similar agreements concluded between EEC and four other African countries, but no way has been found for implementing the recommendation on the abolition of special preferences included in annex A.II.1 of the Final Act of the first session of UNCTAD. At both the meeting of the Group of 77 and the second session of UNCTAD it proved impossible to reach positive agreement concerning ways of implementing this recommendation. The Charter of Algiers merely expresses the need to undertake studies, commodity-by-commodity and country-by-country, on the effect of the abolition of the special preferences in force and the steps necessary to ensure that countries which at present enjoy such preferences receive at least equivalent advantages; it recognizes, however, that, in certain cases, the special preferences in force could be abolished through international commodity agreements. Nevertheless, this agreement was not ratified at the second session of UNCTAD, nor was it considered at the seventh session of the Trade and Development Board.

The Latin American countries have maintained a well-defined stand in this matter. They take a favourable view of all aspects of the Yaoundé Convention related to flows of financing and technical assistance to the associated countries, but they consider it inadmissible that one of the essential elements of the Convention should be the establishment of trade treatment that discriminates against other developing countries. This position was reiterated by the countries members of the Special Committee on Latin American Co-ordination (CECLA), at its fourth meeting at the ministerial level held in June 1968. At this meeting, they also ratified the agreement in the Charter of Algiers that, in the case of certain commodities, the special preferences in force could be reduced or even abolished through international agreements.9/

The position of the EEC and associated countries seems to be somewhat contradictory. Although the two groups approved the recommendations for gradually abolishing special preferences, the Community has negotiated

9/ Report of the Rapporteur on the fourth meeting of CECLA at the ministerial level (Santo Domingo, June 1968).

/new arrangements

new arrangements to extend special preferences to other countries and is preparing to negotiate others, while the associated countries are advocating the need not only to maintain discrimination but also to intensify it. Clearly, neither the concession of new special preferences nor the maintenance of those already in existence can be reconciled with the undertaking to abolish them.

When the question of special preferences is confined strictly to the customs aspect, it seems easy to find possible solutions: in the case of primary products, through commodity agreements or some form of international organization of markets; in the case of manufactures and semi-manufactures, by establishing a general system of non-reciprocal preferences in favour of all developing countries. Nevertheless, this clear approach to the problem when reduced to such terms has not led to practical results because the issue at stake for the EEC countries is not merely the tariff advantages they grant to a group of countries but also, and simultaneously, the concessions they receive. The association agreement is the instrument for setting up a free trade area, which introduces reciprocity as an element of the concessions. Thus it is generally considered that the countries most interested in maintaining the system of special preferences are the members of the European Economic Community, because of the preferences they themselves receive in the markets of the associated countries. Now, these reverse preferences (as they have been called) have become an obstacle to the adoption of the general system of non-reciprocal preferences in favour of all developing countries, inasmuch as some developed countries make their participation in such a system conditional upon the abolition of special preferences.

This is one of the issues hampering the search for solutions, but not the only one. There is also the added complication that arises out of maintaining the open character of the association, i.e., the inclusion of new countries, which would extend the special preferential treatment to a larger geographical area than at present.

The two concepts - the reciprocal nature of the special preferences between EEC and the associated countries and the open character of the association (e.g., the possible spread of special preferences) - are

/considered essential

considered essential elements of the new agreement that is being negotiated. At the same time, it has been explicitly recognized that the Community might contemplate the reduction or abolition of the common tariff if the international commodity agreements based on the control of supply ensure that the associated countries can sell their products at stable and reasonable prices through export quotas and other arrangements. This formula, originally set forth in the Charter of Algiers, would certainly provide a solution applicable to some Latin American products affected by special preferences; it is to be hoped, therefore, that it will be included in the new text of the association agreement.

The new international coffee agreement already provides a solution to the problem of special preferences for this commodity. Article 47 of the agreement establishes that "taking into account their mutual interest and in the spirit of Annex A.II.1 of the Final Act of the First United Nations Conference on Trade and Development, the Members undertake to seek ways and means by which the obstacles to increased trade and consumption ....could be progressively reduced and eventually wherever possible eliminated, or by which their effects could be substantially diminished". These obstacles include the customs tariffs existing in various countries. The implementation of the coffee agreement has benefited all exporting countries. First, it helped to obtain an appreciable improvement in world prices and to keep them at that level, reducing the extent and frequency of price fluctuations. Secondly, the system of export quotas has not only served to regulate the total world supply of coffee but it has enabled many countries - particularly the African States - to increase their share of world exports. Thirdly, inasmuch as the major Latin American exporters have undertaken to restrict production, finance their accumulated surpluses and launch crop substitution programmes, they have laid the bases for solving the problem of structural over-production that has affected the coffee economy for many years.

The commitment accepted in the context of the International Coffee Agreement provides a guide for the adoption of similar formulas for other commodities, e.g. cocoa, another major Latin American export that is

/affected by

affected by discrimination in the EEC market. At the fourth meeting of CECLA at the ministerial level, the Latin American countries agreed to press for the abolition of discriminatory tariff treatment as a basis for a possible international agreement on this commodity. The type of agreement that is under discussion, based on the establishment of a price scale, a system of export quotas and a buffer stock, has all the characteristics that the EEC considers suitable as a basis for warranting the reduction or abolition of the common external tariff. It is to be hoped, therefore, that when the negotiations on the cocoa convention are resumed, it will be easy to reach agreement regarding the elimination of discriminatory tariffs and, possibly, of all existing customs charges and internal duties on this commodity. Lastly, mention should be made of the special problems affecting the banana trade, in which tariff discrimination has reached its highest level and is supplemented by quantitative restrinctions. The perishable nature of this commodity excludes the possibility of an agreement based on export quotas, but arrangements may be envisaged in connexion with export prices, marketing margins and other questions related to the specific features of this commodity. At all events, any modification that might restrict or interfere with the current duty-free quota system covering imports into the Federal Republic of Germany would not be feasible unless other provisions for the abolition of the common external tariff and the quantitative restrictions existing in some EEC countries are adopted concurrently.

The possible solutions to the problem of special preferences in the case of the three commodities referred to above by no means exclude the possibility of achieving the same results by other means, i.e., the complete liberalization of trade in tropical agricultural commodities in the developed countries' markets, as has been recommended at ministerial meetings of GATT and as it was hoped might be agreed in the Kennedy Round. As stated previously, the new terms of reference of the Special Group on Tropical Commodities refer explicitly to the study of special preferential arrangements, which, together with internal charges and fiscal duties, are the most formidable barrier to trade in this group of commodities.

Chapter III

EXPORTS OF MANUFACTURES AND SEMI-MANUFACTURES

1. Recent trends in exports of manufactures and semi-manufactures

As noted earlier, while exports of manufactures have grown at a relatively fast pace in recent years, compared with exports of primary commodities, they have not yet reached levels high enough to bring any fundamental change in the composition of the total exports of the region. Between the periods 1955-57 and 1964-66, exports of manufactures grew at an average annual rate of 10 per cent, while their share of the total value of exports grew from 2.9 per cent to 5.1 per cent (see table 2).[1/] In terms of value, annual exports of manufactures for the region as a whole rose from an average of 246 million dollars to an average of 562 million dollars between the two periods. Thus, in both relative and absolute terms, exports of manufactures have a relatively small share which, moreover, is concentrated in a very few countries. Since Argentina, Brazil and Mexico, are responsible for slightly more than two-thirds of the regions total exports of manufactures, an analysis of what has happened in these threee countries should suffice to give an idea of recent trends in exports of manufactures in the region.

Despite a relatively steady rate of growth during the period 1955-56 to 1965-66 - an average of 5.7 per cent annually - Argentina's exports of manufactures during 1965-66 only represents 5.9 per cent of its total exports, divided into simple manufactures (1.5 per cent), machinery and transport equipment (1.3 per cent) and other manufactures (0.8 per cent).[2/] Looking first at chemicals (SITC section 5), one finds that virtually half the total value of exports - which declined between 1955-56 and 1965-66 - is attributable to tanning materials, mainly quebracho extract. Two groups of products - leather goods and iron and steel - account for most of the exports of manufactures in SITC section 6, whose total value grew at an

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1/ Seetthe methodological note in chapter I regarding the classification of products into primary products and manufactures.

2/ Data based on the SITC nomenclature, i.e. excluding processed foodstuffs.

/average annual

average annual rate of 21 per cent over the period. Exports of manufactures in SITC section 7 (machinery and transport equipment), on the other hand, were much more active, growing on the average by 46 per cent annually between 1955-56 and 1965-66. The growth of such items as office machines, electrical machinery and, to a lesser extent, transport equipment, mostly comprising road motor vehicles, was particularly marked (see table 6).

The measures adopted by the Argentine Government to promote non-traditional exports have probably helped in a general way to expand such exports over the past three years. They include fiscal incentives, for example exemptions from or repayments of taxes or duties in respect of certain exports, and a system of medium-term credit administered by the Central Bank for exports of capital goods. In contrast, another factor of an institutional character - the exchange rate - has had the opposite effect. The peso - dollar exchange between 1964 and 1967 only partially offset the rise in domestic costs, thus making Argentine industry less competitive.

In recent years, Brazil has made notable efforts to expand its exports of manufactures, the total value of which grew from 20.6 million dollars in 1955-56 to 122.3 million in 1965-66, increasing their share of total exports from 1.4 to 7.2 per cent.[3/] Manufactures in SITC section 6 grew particularly rapidly (at an average annual rate of 23 per cent), but were outpaced by exports of machinery and transport equipment, which grew on the average by 29 per cent annually, rising in value from 2.5 million to 31 million dollars. In general, the manufactures in SITC section 7 (including machinery and transport equipment) which grew at a steady rate were those which involved relatively complex industrial technology, for example, tabulating machines, card-punchers, mechanical lathes, etc.

3/ As in the case of Argentina, these figures exclude certain products classified as manufactures in national statistics, for example, canned meat (7.6 million dollars in 1966) and soluble coffee (10 million dollars).

/Table 6

Table 6

ARGENTINA, BRAZIL AND MEXICO: EXPORTS OF MANUFACTURES

(Millions of dollars)

SITC headings		Average		Percentage of total exports		Annual growth rates
		1955-56	1965-66	1955-56	1965-66	1965-66/1955-56
Argentina						
5	Chemicals	48.2	40.6	5.1	2.6	-1.7
532	Quebracho	(26.8)	(16.1)	2.9	(1.0)	(-4.9)
6	Manufactured goods a/	3.0	19.2	0.3	1.2	21.0
61	Leather goods	-	(6.3)	-	(0.4)	
67	Iron and steel	-	(7.3)	-	(0.5)	
7	Machinery and transport equipment	0.4	18.3	...	1.2	46.0
71	Machinery, other than electric	-	(13.4)	-	(0.9)	
771	Power generating machinery, other than electric	-	(1.3)	-	(0.1)	
714	Office machines	-	(7.4)	-	(0.5)	
72	Electrical machinery	(0.1)	(3.1)	...	(0.2)	(41.0)
73	Transport equipment	-	(1.8)	-	(0.1)	
732	Road motor vehicles	-	(1.5)	-	(0.1)	
8	Miscellaneous manufactured articles	0.2	12.2	...	0.8	50.0
	Total manufactures	51.8	90.3	5.5	5.9	5.7
	Total exports	936.2	1 543.3	100.0	100.0	5.1
Brazil						
5	Chemicals	9.1	20.6	0.6	1.2	8.5
6	Manufactured goods a/	8.3	67.3	0.6	4.0	23.0
63	Wood manufactures	-	(6.9)	-	(0.4)	
65	Textile goods	-	(15.0)	-	(0.9)	
67	Iron and steel	(4.2)	(31.6)	(0.3)	(1.9)	(22.0)
7	Machinery and transport equipment	2.5	31.0	0.2	1.9	
71	Machinery, other than electric	-	(19.8)	-	(1.2)	
714	Office machines	-	(4.6)	-	(0.3)	
72	Electrical machinery	-	(5.0)	-	(0.3)	
73	Transport equipment	-	(6.1)	-	(0.4)	
732	Road motor vehicles	-	(3.8)	-	(0.2)	
8	Miscellaneous manufactured articles	0.6	3.3	...	0.2	18.6
	Total manufactures	20.6	122.3	1.4	7.3	18.9
	Total exports	1 452.6	1 668.4	100.0	100.0	1.4
Mexico						
5	Chemicals	14.2	93.7	1.1	5.1	21.0
541	Pharmaceutical products	(6.2)	(30.8)	(0.5)	(1.7)	(17.4)
6	Manufactured goods b/	94.6	145.5	7.6	7.8	4.4
65	Textile goods	(25.2)	(48.5)	(2.0)	(2.6)	(6.8)
67	Iron and steel	(1.7)	(32.7)	(0.1)	(1.8)	(35.0)
7	Machinery and transport equipment	3.8	27.3	0.3	1.5	22.0
71	Machinery, other than electric	-	(13.6)	-	(0.7)	
72	Electrical machinery	-	(8.7)	-	(0.5)	
73	Transport equipment	(0.9)	(4.9)	(0.1)	(0.3)	(18.4)
735	Ships and boats	-	(1.8)	-	(0.1)	
8	Miscellaneous manufactured articles	14.4	33.4	1.2	1.8	8.8
	Total manufactures	128.2	305.0	10.3	16.4	9.1
	Total exports	1 249.8	1 8 4.8	100.0	100.0	4.0

Source: United Nations, Yearbook of International Trade Statistics, 1959 and 1966.

a/ Excluding division 68 (non-ferrous metals).

b/ Excluding division 68, for which Mexico had the following figures: an average of 170.6 million dollars during 1955-56 and an average of 122 million dollars during 1965-66.

/Nevertheless, despite

Nevertheless, despite the fact that Brazil's exports of manufactures grew at an over-all rate (18.9 per cent annually between 1955-56 and 1965-66) which compares very favourably with the corresponding rate for total exports (1.4 per cent annually), most of the time they were subject to marked fluctuations which greatly affected the prices for a large number of products, as has been especially evident in recent years with a number of iron and steel products.

The most important of the factors causing these fluctuations have to do with variations in domestic demand and with exchange problems similar to those which occurred in Argentina. It may be said that entrepreneurs in Brazil basically tend to turn their attention to exports when the domestic market shrinks, particularly in the case of technical equipment and capital goods. Clearly, a gradual and continuous expansion of exports of manufactures very much depends on the creation of the will to export, so that exports of manufactures are viewed as the normal end-product of certain industrial sectors, rather than as a temporary stopgap to make up for variations in domestic demand.

Mexico's exports of manufactures over the period 1955-56 to 1965-66 markedly increased their share in total exports - already much higher at the beginning of the period than in Argentina and Brazil - which rose from 10.3 to 16.4 per cent. Exports of manufactures in SITC sections 5 to 8, excluding division 68, grew as a group by 9.1 per cent annually during 1955-56 to 1965-66, which compares favourably with the average annual rate of growth of total exports (4 per cent) over the same period.

The two basic components of Mexican exports of manufactures are chemicals, which grew at an average annual rate of 21 per cent - pharmaceutical products making up one-third of the total - and the manufactured goods in SITC section 6, some of which for example, traditional products such as, textile goods, grew relatively slowly, while others, such as iron and steel, expanded much more rapidly. Exports of manufactures in SITC section 7 (machinery and transport equipment) over this period, while growing extremely rapidly (at an average annual rate of 22 per cent), maintained a low share, in both relative and absolute terms, of total exports of manufactures. In more recent years, however, there has been appreciable growth in exports of products involving the use of relatively more complex technology, for example, electrical machinery and appliances, and transport equipment.

/Generally, then,

Generally, then, it may be said that, despite the actual progress achieved by some countries in a number of sectors, Latin America has not been able to develop a sufficiently wide range of exports involving a certain degree of advanced technology, i.e. products with a high proportion of value added and for which world demand is the most dynamic. This is quite evident if Latin America's performance is compared with that of several other countries in different regions over the same period. The fact that Latin America's exports are not properly adapted structurally to the current trends of world trade, and especially its most dynamic features explains why its exports grew by only 3.1 per cent during the period 1955-57 to 1965-66, a rate that is even lower than that of other developing regions.

The progress made in regional integration has had a direct influence on the geographical distribution of exports of manufactures. A breakdown of reciprocal trade among the Central American countries shows that manufactures accounted for 68.2 per cent of total intra-area exports in 1967 (see table 7). Export of manufactures within the Central American Common Market have grown steadily in recent years, rising from 34 million dollars in 1963 to 82 million dollars in 1965 and 144 million dollars in 1967, very much faster than intra-area exports of primary products. It is particularly interesting to note, moreover, that the Common Market absorbs a very large proportion of total exports of manufactures by the member countries. In 1965, intra-area exports of goods in SITC section 6 and 8 were valued at 57 million dollars, compared with only 2 million dollars for exports of such goods to countries outside the area. The corresponding figures for total exports of manufactures by Central America are 82 million dollars for intra-area exports and 7 million for exports to countries outside the area.

/Table 7

Table 7

CENTRAL AMERICA: INTRA-AREA AND EXTRA-AREA EXPORTS OF MANUFACTURES

(Millions of dollars)

SITC sections	1963		1965		1967
	Intra-area	Extra-area	Intra-area	Extra-area	Intra-area a/
0 - 4	33	364	38	422	67
5	8	4	21	4	32
7	-	-	4	1	9
6 and 8	26	6	57	2	103
Total 5-8	34	10	82	7	144
Aggregate total	67	374	120	429	211

Source: SIECA/UNCTAD.

a/ No data available on extra-area trade.

Although the statistical data available for the Latin American Free Trade Association (LAFTA) are not very detailed, it may be said that intra-area exports of manufactures have grown appreciably in recent years as a result of the tariff concessions negotiated. While intra-area exports of goods included in the liberalization programme grew from 300 million dollars in 1962 to over 650 million in 1966, the share of manufactures in exports rose from 18 to 25 per cent, and their value from 45 million dollars to 143 million (see table 8). The largest increases were in office machines, machine tools for working metal, sewing machines, electrical appliances, tyres, and steel plates and sheets.

In contrast to what has happened in the Central American Common Market, exports of manufactures within LAFTA have not yet attained a large share of total intra-area regional exports (10 per cent of total value in 1966). They do, however, represent a sizable proportion of total exports of manufactures by the LAFTA countries, although the proportion varies in each group of manufactures. In the case of traditional manufactures, the regional market continues to absorb a small fraction of exports, which mostly go to

/the industrialized

the industrialized countries. On the other hand, intra-area exports of manufactures containing a relatively high degree of technology, such as office machines or electrical equipment, currently make up more than half of total intra-area exports, and for some goods the proportion is as high as 70 per cent.

The data available indicate that the rate of growth of Latin American exports of manufactures to countries within the region is much higher than that of total exports of manufactures. For example, between 1955-57 and 1964-66 intra-regional exports of manufactures in SITC sections 6 and 8 (excluding division 68) grew at an annual rate of 18.6 per cent, as compared with a rate of 8.9 per cent for total exports. The corresponding rates for manufactures in section 5 were 16.4 and 8.2 per cent respectively, while for those in section 7, they were 29.5 and 20 per cent. For manufactures as a whole, the rate of growth of intra-regional exports was double (19.5 per cent) that of total exports (see table 9).

This points up the fundamental role of regional economic integration in promoting Latin American exports of manufactures, a role that will have to be markedly strengthened as further progress is made in regional co-operation. Undoubtedly, the experience that Latin American industrial enterprises are acquiring in exporting manufactures within the region will inevitably help to create the will to export which is essential if Latin American exports are in the future to penetrate the markets of the developed countries.

/Table 8

Table 8

LAFTA: INTRA-AREA EXPORTS OF MANUFACTURES INCLUDED IN THE LIBERALIZATION PROGRAMME

(Millions of dollars)

	1962	1963	1964	1965	1966	Annual growth rates 1962-66
5 Chemical	6.5	16.2	21.3	24.5	30.0	47.0
6 Manufactured goods	33.4	65.5	74.5	94.0	73.2	21.5
7 Machinery and transport equipment	1.2	8.8	14.9	22.0	28.9	121.5
8 Miscellaneous manufactured articles	4.1	2.7	6.3	7.6	10.5	26.5
Total	45.2	93.2	117.0	148.1	142.6	33.5

Source: LAFTA.

Table 9

LATIN AMERICA:[a] EXPORTS OF MANUFACTURES

(Millions of dollars)

SITC sections	Total Latin American exports of manufactures			Exports of manufactures within Latin America		
	1955-57	1964-66	Annual growth rates	1955-57	1964-66	Annual growth rates
5	85	173	8.2	15	59	16.4
7	13	69	20.0	5	50	29.5
6 and 8 b/	148	320	8.9	32	149	18.6
Total exports of manufactures	246	562	9.6	52	258	19.5
Total exports	8 427	11 107	3.1	727	1 077	4.5

Source: United Nations, Yearbook of International Trade Statistics and Monthly Bulletin of Statistics.

a/ Twenty countries.

b/ Excluding division 68 (non-ferrous metals).

/2. Exports

2. Exports of manufactures as a dynamic factor in Latin America's foreign trade

Broadly speaking, the trends followed in recent years both by world trade and by Latin America's exports bear out the assumption that manufactured goods are the most dynamic factor in the trade of developed and developing countries alike. In the case of the Latin American countries, as has been shown, the growth rates of industrial exports are high for certain groups of products, some of which did not appear in export statistics ten years ago. Most of this expansion, however, has been achieved within the framework of regional integration movements, that is, under the aegis of the trade concessions agreed upon between the members of the integration systems concerned. Accordingly, although regional integration can do much to sustain and even accelerate the rate of increase of industrial exports, in the end the real structural reform of Latin America's export sector will be based on its capacity to adapt itself to the more dynamic world trade flows. This implies the necessity of defining, in broad outline, a policy whose ultimate aim is to promote those manufactures which have the best world market prospects, with due regard to the special conditions prevailing in each country. In other words, the policy based solely on import substitution as the prime mover in the industrial development process needs to be changed or substantially modified so as to incorporate the dynamic influence of the expansion and diversification of exports of manufactured goods.

In this connexion it is important to consider which identification branches of industrial production have shown the most promising rates of expansion in recent years from the standpoint of world demand. Research on the exports of manufactured products (SITC sections 5 to 8) effected by developed countries during the period 1955-64 4/ showed that the export items whose cumulative annual growth rate during that period ranged from 10 to 20 per cent included, on the one hand, some of the products of traditional industries such as footwear, clothing, furniture and travel

4/ See Economic Planning Agency, Japanese Government, Economic Survey of Japan (1965-1966) (The Japan Times, Ltd., Tokio).

/goods, and,

goods, and, on the other hand, articles such as office machinery, optical measuring and controlling instruments, man-made fibres, tape recorders and musical instruments, synthetic plastics, electrical machinery, photographic equipment, metal-working machinery, pulp, paper and board products, aluminium, and motor vehicles. A second group of products whose annual growth rate over the period indicated fell between 5 and 10 per cent comprise leather and wood manufactures, glass, organic colouring matter, essential oils, toys and sports equipment, pharmaceutical products, iron and steel manufactures, carpets, and agricultural machinery.

Another method of identifying products with high rates of expansion is to study the developed countries, reciprocal trade in manufactured goods. The figures for these countries' imports from one another, broken down by major categories of products, show that by 1965 the value of imports of machinery and transport equipment had reached 23,800 million dollars, as against about 6,000 million in 1955; their share in the total imports of the developed countries thus rose from 27 per cent in 1955 to 36 per cent in 1965.[5/] Chemical products, iron and steel, forest products and pulp and paper also showed fairly rapid growth rates. An analysis of the products traded among the developed countries with market economies brings to light the steadily increasing importance of those sectors whose technology is relatively farther advanced. More careful study reveals that within these branches of industry trade is being diverted from their traditional manufactures to new products for which import demand runs very high. A similar trade shift is taking place in the case of textile products, in favour of those based on artificial or synthetic fibres.[6/]

Obviously, the developed countries' imports of manufactures from the developing countries are very different in composition. There is a preponderance of products which may be classified as light manufactures, including certain processed foods. A glance at the list of these import items shows that some of them expanded at fairly high annual rates between

5/ See a report by the UNCTAD Secretariat on dynamic products in the developing countries' exports of manufactures and semi-manufactures (TD/B/C.2/47).

6/ See the report referred to in footnote 5.

/1955 and 1965,

1955 and 1965, but it can also be seen that this is due to the exceptionally low levels recorded in the base year.[7/] Both features - i.e., the kind of manufactured goods which the developing countries can export and the limited value of such exports (for the developing countries in the aggregate) - largely reflect the nature of the tariff and non-tariff barriers hindering their access to the developed countries' markets. In the developed countries, the traditional types of manufacturing industry are strongly protected both by the absolute level of tariff duties and by the progressive increase in these duties in conformity with the degree of processing undergone by the goods concerned. Research on the latter question has made it clear, in addition, that the real incidence of tariff duties is considerably greater than their nominal levels suggest, since in actual fact they represent protection applied to the value added in the successive stages of processing. The findings of a sample survey based on 22 products [8/] exported from the developing to the developed countries, which are assumed to undergo, on an average, four successive stages of processing, indicate that the real (or "effective") levels of protection are unsuspectedly high (see table 10).

This increasing protectionist incidence of tariff duties tends not only to perpetuate a distorted structure of exports in the case of the developing countries, but also to impede the spread of technological progress in the countries in question, since in so far as they are debarred from access to external markets, their opportunities of introducing more complex production techniques are circumscribed by the small size of their domestic markets. The significance of the phenomenon is evidenced in the fact that the largest increase in the effective incidence of tariff duties coincides with the transition from the first to the second stage of processing. In the study referred to in table 10, it is pointed out that "at the primary stage, effective duties can be taken to equal the nominal tariff.. Thus, the effective rate of protection increases almost without exception from the first to the second stage of transformation. But while nominal

7/ See the report referred to in the preceeding footnotes, particularly tables III-4, III-5, and III-6.

8/ The following are the products selected: meat, fish, vegetables, cocoa, leather, ground nuts, copra, palm kernels, palm oil; rubber, wood; wood for pulping, wool, cotton, jute, sisal and henequen, iron, copper, aluminium, lead and zinc.

/Table 10

Table 10

WEIGHTED AVERAGES OF NOMINAL AND EFFECTIVE TARIFF DUTIES ON THE MAJOR DEVELOPED COUNTRIES' IMPORTS FROM DEVELOPING COUNTRIES, 1964

Stage of processing	Weighted averages of duties (Percentages)			
	(1)	(2)	(3a)	(3b)
Stage 1	4.6			
Stage 2	7.9	22.6	40.6	62.1
Stage 3	16.2	29.7	46.4	61.4
Stage 4	22.2	38.4	61.9	73.8

Source: Professor Bela Balassa, "The structure of protection in the industrial countries and its effects on the exports of processed goods from developing nations" (TD/B/C.2/36), a paper prepared for the second session of the Committee on Manufactures of the Trade and Development Board of the United Nations Conference on Trade and Development (Geneva, July 1967).

Note: Column (1) shows nominal rate of tariff duties;

Column (2) shows effective rate of protection;

Column (3) shows rate of protection of labour

(a) unadjusted
(b) adjusted for assumed differences in the required rates of return on capital.

The developed countries to which the averages relate are the members of the European Economic Community, Japan, Sweden, the United Kingdom and the Unites States.

/duties continue

duties continue to rise at higher stages, tariffs on processed inputs tend to limit further increases in effective tariffs. With the duty-free entry of many primary products contributing to high rates of protection at the second stage of transformation the effective rate of protection frequently declines as we move to higher stages. This result can be explained if we consider that commodities at higher levels of transformation often require a considerable degree of technological sophistication which is not found in developing countries. In other words, there is less need for tariff protection if there is 'technical protection'".[9/]

It should be recognized that significant headway has been made in recent years in the process of liberalization of world trade in manufactured goods. As noted earlier, the five rounds of tariff negotiations conducted under the auspices of the General Agreement on Tariffs and Trade (GATT), together with the concessions agreed upon between the members of the European Free-Trade Association (EFTA), on the one hand, and the European Economic Community (EEC) on the other, have done much to broaden the geographical scope of trade liberalization. Nevertheless, not even in the most recent of these negotiations - the Kennedy Round, noteworthy both for the number and comprehensiveness of the tariff concessions granted, and for the linear reduction system applied in most cases - was adequate provision made for taking due account of the interests of the developing countries. Generally speaking, concessions were not accorded in respect of most agricultural commodities; the biggest reductions were granted in the case of highly capital-intensive branches of industrial production entailing advanced technology (i.e., those of most importance in the developed countries' reciprocal trade); and lastly, as a general rule non-tariff restrictions were not taken into consideration.[10/] All this leads to the conclusion that in reality little progress has been made in liberalizing trade to the advantage of the developing countries, despite

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9/ "The structure of protection in the industrial countries and its effects on the exports of processed goods from developing nations", op.cit., pp. 7-8.

10/ One important exception must be noted. Concessions in respect of chemical products were made conditional upon the elimination of the "American selling price" which served as a basis for customs duties in the United States. See "The Kennedy Round: Preliminary evaluation of the results with special reference to developing countries", op. cit.

/the numerous

the numerous commitments and recommendations that have gradually been adopted at the sessions of GATT since 1961 and at those of UNCTAD since 1964, with a view to the reduction and elimination of restrictions affecting products of export interest to the developing countries. The prospects of an improvement in this situation in the immediate future depend at present upon negotiations to be conducted in 1969 on a system of general preferences which the developed countries would adopt, on a basis of non-reciprocity, in favour of manufactures and semi-manufactures from the developing countries. This topic will be discussed later; it is worth pointing out here, however, that even on the assumption that the preferential system under negotiation offers substantial trade advantages to the developing countries, it will be operative for a specified period of time, and therefore will not obviate the need for continued endeavours to secure the application of a broader trade liberalization programme in favour of the countries in question.

This point is all the more important in view of the fact that in so far as tariff duties are losing ground - because of the successive reductions negotiated in GATT - non-tariff barriers and restrictions are coming to play a decisive role, and in many instances are more difficult to overcome than the higher customs tariffs previously in force.[11] Accordingly, at the twenty-fourth session of the Contracting Parties of GATT (November 1967), it was agreed that a Committee on Trade in Industrial Products should be set up to explore new opportunities for increased liberalization of trade and, in particular, to analyse the status of tariff levels following the Kennedy Round and to prepare an inventory of all non-tariff restrictions. It is hoped that this study of the tariff situation will make it possible

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11/ A recent study on some of the commonest non-tariff barriers is to be found in Bela Balassa (ed.), Studies in Trade Liberalization (Johns Hopkins Press, Baltimore, 1967), chapter IX, "Non-tariff barriers". According to the author of the chapter referred to, Williams B. Kelly, it is extremely difficult to estimate the restrictive effect of non-tariff barriers, and this introduces an element of uncertainty which is frequently aggravated by the discretionary character of barriers of this type. "Unlike tariffs, the effects of non-tariff measures on importers' and exporters' sales and profits may not be calculable. Because of such open-ended risks, the effort necessary to develop a foreign market may never be made" (p. 268).

/to determine

to determine the over-all levels of incidence of the tariff duties applied by the EEC and EFTA countries, Japan and the United States to the products of greatest export interest to the developing countries. The aim of the inventory of non-tariff restrictions - drawn up on the basis of official information - is to establish the nature and scope of restrictions of this kind and to classify them under the following heads: (a) State trading or government participation in trade; (b) administrative and customs regulations; (c) standards (requirements that goods shall be marked with the name of the country of origin, sanitary regulations, packing and labelling requisites, etc.); (d) specific restrictions (quotas, import permits, exchange controls); (e) restrictions based on price mechanisms; and (f) other restrictions, including restrictive business practices.12/ These decisions were supplemented by certain conclusions on the expansion of trade which the Contracting Parties of GATT adopted at their twenty-fifth session (November 1968). In relation to the developing countries' trade, the following statement was made, inter alia: "The Contracting Parties agree that in order to strenghten the effectiveness of the Committee on Trade and Development, the Committee should, where appropriate, initiate consultations in respect of tariff and non-tariff barriers and related problems not elsewhere under examination in the GATT affecting the exports of developing countries, with a view to seeking appropriate solutions for consideration by the Contracting Parties at their twenty-sixth session. The Committee should also follow closely the work in progress in other organs of GATT, such as the Committee on Trade in Industrial Products and the Agriculture Committee, and make appropriate suggestions, so that, in investigating possible lines of action and seeking solutions, these Committee give early and adequeate attention to questions of special concern to developing countries".... "The Contracting Parties note that the Committee on Trade and Development intends to carry out a detailed examination

12/ The report compiled by the GATT Secretariat on the basis of official information classifies non-tariff barriers in thirteen groups. See GATT, Committee on Industrial Products, "Inventory of non-tariff barriers" (COM.IND/4 and COM.IND/6).

of the difficulties encountered in the of implementation of, Part IV of the General Agreement and to recommend measures for securing more effective and systematic implementation....."13/

Within this field of non-tariff restrictions special mention must also be made of the use of escape clauses drawn up in very general terms or based on such concepts as market disruption. A typical case in point is the situation envisaged in article XIX of GATT. Member countries are free to sustain or withdraw the concessions granted in respect of a given product when it is being imported in such increased quantities as to cause or threaten serious injury to domestic producers of like or directly competitive products. It is true that under the terms of the same article the emergency measures adopted are subject to a system of advance notice and prior consultation (or, in very special cases, consultation immediately after adoption of the measures), on the part of all the interested countries. But it is equally obvious that the efficacy of such consultations in cushioning the impact of the withdrawal of concessions or the application of restrictions is extremely dependent upon the bargaining capacity of the countries affected. In any event, given the commitments assumed by the developed countries under the new article XXXVII of the General Agreement, and in view of the whole content of Part IV, it would seem desirable for article XIX to be amended so as to exempt the concessions granted to developing countries from the application of its provisions.14/

13/ See Contracting Parties of the General Agreement on Tariffs and Trade (GATT), "Expansion of trade: conclusions adopted on 29 November 1968" (L/3155). The conclusions to which the title refers are those adopted at the twenty-fifth session.

14/ In this connexion, see GATT, "Report of the Committee on Trade and Development" (L/3102), (twenty-fifth session, November 1968), p. 2: "The representative of one developing country drew attention to the imposition of a customs duty by one developed country on a certain product of export interest to developing countries and stated that this action appeared to be inconsistent with the standstill provision in article XXXVII. The representative of the developed country concerned pointed out that the action was taken in accordance with article XIX of the Agreement and in the view of his delegation was not inconsistent with the provisions of Part IV. This matter was at present under active consideration by his Government."

/Free access

Free access to the markets of the developed countries, and, above all, the possible establishment of a system of general preferences in favour of exports of manufactures from the developing countries, afford these latter opportunities for expanding their industrial exports, and therefore confront them with the need to adopt certain decisions with respect to the types of industrial activity which it would be in the interests of each country to encourage. Up to a point, the selection of these activities will be contingent upon the pattern and characteristics of the preferential system, but in essence decisions will have to be based on certain long-term objectives linked to the economic development of the country concerned. In this connexion, reference should be made to two major guidelines which have been gradually mapped out during the discussion of this question. According to one of them, the expansion of exports of manufactures should be basically directed towards those industries which may be considered as traditional in type (processed foods, textiles, leather, wood, and glass products, etc.), i.e. those which primarily consist in the transformation of domestic raw materials; and a gradual transition should be made from simple to more complex technical processes. The other line of thought maintains that it is not necessary for each developing country to reproduce every stage in the history of industrial development. Some of them may well be skipped, and direct progress made towards the more complex phases of modern technology.

Although it is beyond the scope of the present report to expatiate on the implications of each of these approaches (presented here in highly simplified fashion), it should be pointed out that they are not necessary mutually exclusive. Over the short term, it is the industries already existing in the developing countries that afford the best possibilities of expanding exports of manufactures particularly through the reduction of idle installed capacity, or through improvements in productivity and enlargements of plant. Joint UNCTAD/ECLA studies have shown how far selected Latin American countries could expand their output of manufactures goods merely by using the idle capacity existing in certain industries, or, in other cases, with only a little additional investment. But although over the short term there certainly are possibilities of increasing some exports in this way, in the longer run such an approach would to some extent mean

/that new

that new investment had to be channelled into the types of industry in question. In other words, industrial development policy would have to take that direction, assigning priority to investment in improving the efficiency and competitive capacity of the more traditional industries rather than in installing other activities with a higher degree of technological complexity. What is more, doubts arise as to whether this line of action would not be tantamount, in essence, to reproducing the old system of the international division of labour, at a different level; where formerly the developing countries had been, generally speaking, relagated to the position of exporters of raw materials and importers of manufactures goods, they would now become exporters of light or simple manufactures and importers of products based on more advanced techniques. But even without going to such extremes, it must be acknowledged that in any event the prospects for increasing exports of the more traditional manufactures are far from extensive, because – among other reasons – the growth rate of world demand is relatively slow, and because it is generally those industries that are most strongly protected in the developed countries.15/ Moreover, the value added in simple or light manufactures of this type is comparatively small, and they will therefore do little to boost export earnings, inasmuch as in most cases the exportation of a manufactured product puts a stop to exports of the raw materials on which it is based. Lastly, no less importance attaches to the argument that by concentrating on the more simple lines of manufacture the developing countries would be limiting their opportunities of more active participation in the difusion and assimilation of modern techniques.

The other approach referred to is based – as already indicated – on a longer-term outlook. Without failing to recognize that the immediate

15/ Professor Bela Balassa has pointed out that the differences between nominal tariff rates and their effective incidence are particularly marked in respect to textiles, leather goods, some chemical products and non-ferrous metal manufactures. The effective incidence is frequently more than twice as high as the nominal rate in these cases. See Tariff Protection in Industrial Countries: An Evaluation (Yale University, Economic Growth Center, New Haven, 1966). It should also be recalled that it is probably in the traditional branches of industry that the products excluded from the system of preference under negotiation will be concentrated.

of creating appropriate conditions for promoting exports from developing countries, it should obviously be extended to all products of present or potential interest to developing countries and consist in total exemption from customs charges or the elimination of barriers; but since special difficulties arise in certain groups of products (for example, in the case of products included in BTN chapters 1 to 24), the margin of preference for those commodities would probably be smaller than, or different from, that enjoyed by the rest. Moreover, the less advanced among the developing countries have a better chance of benefiting from the preferential treatment for this group of products, since they still lack the necessary industrial infrastructure to take advantage of the concessions accorded for manufactured goods.

Another problem relates to escape clauses. The strict application of such clauses or their utilization as a means of repressing the irruption of substantial trade flows would defeat the very purpose of the system of preferences. The definition of escape clauses should therefore include clear-cut criteria regarding the circumstances and ways in which they can be invoked, above all reducing their strictly unilateral sphere of application and emphasizing their temporary nature, which is dependent upon the adoption of measures for internal adjustments in the country applying them. The degree of assurance that the developing countries may have that the conditions of access for their products to the markets of developed countries would be neither unilateral nor suddenly modified by invoking such concepts as "market disorganization" or other disguised restrictions (technical, packing and quality standards, sanitary provisions, etc.) may actually in many cases be as important as, or even more important than, the size of the margin of preference for promoting exports from developing countries.

Apart from these points, which are of interest to all countries benefiting from the system of preferences, there are others of particular importance to the Latin American countries. The first concerns the special preferences for manufactures and semi-manufactures which some developed countries accord to a certain number of developing nations, particularly EEC's concessions to the associated African countries. In order to ensure that the benefits of the system of preferences are not curtailed in the case of the Latin American countries, these special (or selective) preferences would have to be absorbed into the general system. There are several ways of doing this, one being to classify the products in two broad groups. General preferences in favour of all developing countries would be accorded immediately for the first group, which would comprise products not yet constituting stable or substantial trade flows from countries enjoying special preferences. The second group, consisting of products in the case of which special preferences have resulted in export flows, and their immediate conversion to general preferences might cause distortions in the economies of the countries concerned, the extension of general preferences would have to be a gradual process, undertaken within a pre-determined period and at a given annual rate.

The second problem relates to reverse preferences, i.e., those granted by certain developing countries to developed countries. Some nations, including the United States, have expressly declared that their participation in the system of general preferences would be conditional upon the elimination of special preferences and reverse preferences. In actual fact the problem is not confined to the existing systems of special preferences; it also covers the possible spread of other arrangements of this kind, concerning which preliminary negotiations are already under way. Recently, the United States confirmed its position in this regard by stating that a moratorium should be declared in all negotiations for new discriminatory preferences between developed and developing countries while multilateral efforts are under way to develop an acceptable general preferences scheme; that existing selective preferences, including reverse preferences, should be gradually eliminated (over a number of years); and that in the renegotiated Yaoundé Convention (and the Nigerian Agreement) some references should be included (say in the preamble) to discussions under way regarding a general preferences scheme and to the fact that existing preferences would of course be subsumed by implementation of such a generalized scheme to the extent that the generalized scheme grants to other developing countries the same treatment for the same products that the associated African countries now receive.

Other formulas have been suggested for surmounting the obstacle of existing special preferences. According to one of them, the United States

/and other

or short-term possibilities of expanding exports of manufactures are afforded by the existing industries, it places greater emphasis on the need to pave the way for industries that in a few years' time will enable the countries concerned to enjoy a fairer share in the more dynamic sectors of international trade in industrial products. Obviously, not all the developing countries would be in a position to pass on to the more complex and technically sophisticated branches of industry, but it is equally clear that a great many of them could do so. Accordingly, they should begin forthwith to gear the general guiding principle of their industrial and trade policy not merely to the domestic market, as before, but also, in great measure, to the world market. The following are the most interesting features of this approach: in the first place, it links the industrial growth of the developing countries to those branches of industry which are the source of most capital goods; and, secondly, since it involves the assimilation of more complex and advanced techniques, its effects are not only quatitative (in the shape of the expansion of total output), but also qualitative, in that they help to raise the over-all level of efficiency and productivity throughout the economic system.

3. Establishment of a general system of preferences for manufactures and semi-manufactures from developing countries

The conditions of access referred to above could be improved if the consultations and negotiations in process for the establishment of a system of general non-reciprocal preferences for exports of manufactures and semi-manufactures from developing countries in the markets of developed countries are brought to a successful conclusion. In resolution 21 (II) unanimously adopted at its second session, UNCTAD recognized the unanimous agreement in favour of the establishment of such a system of preferences, and set up a Special Committee on Preferences which is currently engaged in consultations in order to settle the procedure and scope of the system, particularly in relation to certain points on which there is marked disagreement between the developed and developing countries. The first session of the Special Committee on Preferences took place at the end of 1968, but no progress was made in the discussion of substantive points of the system because the developed countries postponed until March 1969 the presentation of a list of commodities which would be eligible for preferential treatment in some cases and would be excluded in others.[16/]

The most important differences of opinion observable in the discussions at the second UNCTAD session centred on questions of coverage, the elimination or reduction of duties, lists of exceptions, and application of escape clauses. These problems are, in fact, closely interrelated, since the approach and solution adopted to each have repercussions on the rest. The Latin American countries members of CECLA held an inter-governmental meeting of experts [17/] in September 1968 to begin considering the various problems related to the general system of preferences. No definitive positions were adopted, but the experts pin-pointed what they regarded as the most important issues from the standpoint of the developing countries.

In order to show the close interdependence of the various questions to be negotiated by the Special Committe on Preferences, it is useful to review some of them briefly. Coverage is perhaps the most important problem in the earlier stages of the negotiations. The position declared by the developed countries, as stated previously, is to extend preferential treatment to all products in chapters 25 to 99 of BTN, except those included in a negative list, while the products included in chapters 1 to 24, which in principle would be excluded from preferential treatment, would be considered individually and a positive list would be compiled of those eligible for preferential treatment. Clearly, the smaller number of products excluded in the first case and the larger number included in the second are dependent upon the nature of the preferential treatment, i.e., whether it takes the form of total exemption from customs duties, the reduction of existing levels, the establishment of a duty-free quota, the reduction or removal of a non-tariff barrier, or a combination of several of these forms. If the purpose of preferential treatment is considered, i.e., that

16/ In principle, preferential treatment would be extended to all products in chapters 25 to 99 of the Brussels Tariff Nomenclature (BTN), except those included in a negative list; on the other hand, all products in chapter 1 to 24, except those included in a positive list, would be excluded from preferential treatment.

17/ Special Committee on Latin American Co-ordination (CECLA), Rapporteur's report on the inter-governmental meeting of experts to consider formulas for agreement on general preferences (Santiago, Chile, September 1968).

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and other developed countries not participating or not wishing to continue participating in special preferential arrangements, would establish the system of preferences for exports of manufactures and semi-manufactures from all developing countries not discriminating against them; in other words, they would not accord preferences to countries already granting preferences to certain developed countries. This would be an open system, so that countries not originally included in the general system for the reason mentioned above could join it later, once they had eliminated reverse preferences or had undertaken to eliminate them within a given period. A variation of this formula, which in essence embodies the proposal made by Denmark in the European Free Trade Association (EFTA) in 1965, is to institute the general system of preferences in favour of all developing countries, but to stipulate that at the end of a given period - for example, three years - the preferences would be withdrawn from countries still maintaining reverser preferences.

To conclude, it must be borne in mind that the establishment of a system of general preferences raises complex problems and in some cases may have unforeseeable effects; it seems advisable, therefore, not to start out by seeking completely satisfactory solutions for all parties, but to rely on the effectiveness of the permanent machinery set up to overcome any difficulties that might arise.

4. Promotion of exports of manufactures and semi-manufactures

The need to introduce important changes in the composition of exports, particularly in the group of products showing the most dynamic trends in world trade, lead to the conclusion that the promotion of exports of manufactures will have to become a far-reaching and comprehensive activity in the next few years. This need would be in no way lessened by the possible establishment of a system of general preferences such as that described above. Unfortunately, the concept of "export promotion" has generally been used in the sense that the only action that has to be taken by a Government interested in expanding and diversifying exports is to encourage the search for new markets for products of which there is already a plentiful supply. In the case of Latin American manufactures, this interpretation is incomplete, because, as is well known, the manufacturing

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efficiency of these countries is relatively low compared with current international standards, and in order to gain a foothold in world markets, manufactures must meet certain minimum requirements with respect to price, quality, design, packing, etc. In other words, the successful promotion of exports of manufactures depends on the effective application of a well-integrated group of measures to stimulate the production of goods for the external market and to offer incentives so that those goods are designed, packed, transported, etc. as efficiently as possible. This is the lesson learned from analysing the experience of countries that have been highly successful in export markets in recent years, notably Japan, Taiwan, Hong Kong, Korea and Israel.

The framing and implementation of a policy of this kind should ultimately be the responsibility of a government institution, although the private sector should play an important part in its formulation. It falls largely to the private sector also to organize the activities involved in taking advantage of the various incentives offered by the promotion policy. Although the characteristics of these promotion institutions should be defined according to each country's requirements and possibilities, it seems advisable in any case that there should be only one national agency rather than two or more institutions with separate functions. The sphere and scope of these functions should also be defined in accordance with the legal and institutional practices of each country and, if possible, they should embrace both the stage of identifying likely export commodities and that of preparing feasibility studies on the various phases of marketing. At all events, it seems imperative that the export promotion agency should also take part in the discussions and decisions on the country's import, tariff and foreign exchange policies.

In this respect, brief reference is made to some of the limitations observable in policies for promoting exports of manufactures in the Latin American countries. One is, perhaps, that there is no actual policy as such. Admittedly, laws or regulations are approved for the creation of specific economic or fiscal incentives (for example, the refund of certain taxes, compensation for the higher costs of some local inputs, etc.); but apart from the somewhat sporadic nature of those incentives, the biggest problem lies in the uncertainty prevailing among producers regarding the

/continuance of

continuance of those measures for a sufficiently long period to cover the risks attaching to the investment concerned. In fact, except where production can be expanded on the basis of under-utilized installed capacity, the investment required to increase production capacity or install new plants is feasible only when there are reasonable grounds for assuming that the existing incentives or stimuli will be maintained for a sufficiently long period, or at least that there will be no unforeseen changes in those measures within the short term. These measures include not only incentives for exports, but in general all those affecting the country's competitive position on world markets, e.g., foreign exchange rates, subsidies, prices of local inputs, etc.

It is realized, however, that no policy of export incentives is sufficient on its own to promote the expansion of exports if private entrepreneurs fail to respond to those incentives. It is necessary not merely to inculcate and develop an export mentality in the whole entrepreneurial sector, but at the same time to rationalize administration and management techniques, establish quality control systems, etc. It is a well-known fact that, owing to the high degree of protection enjoyed by industrial sectors in domestic market, the level of efficiency is generally low, and would have to improve substantially in order to compete on international markets. As mentioned earlier, the problems of design, control of quality standards, packing, etc. are all questions at least equally as important as fiscal or other government incentives. In this respect, the increase recorded in exports of manufactures within LAFTA must be considered one of the most positive achievements in the expansion of reciprocal trade, not only because it has meant an increase in reciprocal trade, but especially because it is affording local entrepreneurs in each country the change to acquire the necessary experience to gain a foothold in external markets.

/Chapter IV

Chapter IV

EXTERNAL FINANCING

1. Latin America's external financing position

(a) Foreign capital movements and purchasing power

The decade following the end of the Second World War marked a fairly small net flow of autonomous capital into Latin America. This was because of the purchase of sizable foreign assets in the region and the fact that the internal needs of the traditional capital exporting countries caused them to restrict outflows.

In the mid-nineteen-fifties net remittances to the region increased considerably, mainly as a result of heavy gross investment in 1956 and 1957, notably in Venezuela's petroleum industry. Thus far in the present decade there has been a substantial rise in the gross inflow of foreign capital, both autonomous and compensatory, but amortization and disinvestment have absorbed a growing proportion of those funds, so that, in the last analysis, the net inflow has increased very little (see table 11).[1/]

External factor payments (profits, interest and other returns) have also grown at an accelerated pace, so that in the last few years they have cancelled out the effect of capital inflows on the region's capacity to import, making it heavily negative in the three years 1965-67.

(b) The evolution of external indebtedness

As noted above, while the net capital inflow has remained virtually constant, the gross capital inflow has grown appreciably. In recent years, this gross inflow has substantially increased the external debt of the Latin American countries.

1/ This situation is analysed in greater detail in the "Economic Survey of Latin America, 1968" (E/CN.12/825).

/Table II

Table 11

LATIN AMERICA: TOTAL NET CONTRIBUTION OF FOREIGN CAPITAL TO EXTERNAL SECTOR FINANCING, 1950-67

(Millions of dollars)

	Total (excluding Cuba)				Total (excluding Cuba and Venezuela)			
	Inflow of external autonomous and compensatory capital		Profits, interest and other returns	Net contribution	Inflow of external autonomous and compensatory capital		Profits, interest and other returns	Net contribution
	Gross	Net			Gross	Net		
Annual average								
1950-54	1 126.1	630.0	883.7	-253.7	1 022.9	547.4	441.9	105.5
1955-59	2 493.8	1 421.3	1 226.0	195.3	2 957.1	1 048.0	527.8	520.2
1960-67	3 742.3	1 607.8	1 691.8	-84.1	3 554.6	1 654.0	1 030.4	623.6
Year								
1960	3 256.1	1 651.5	1 238.0	413.5	2 931.4	1 789.2	704.7	1 084.5
1961	3 660.1	1 761.0	1 434.4	326.6	3 397.1	1 906.0	837.4	1 068.6
1962	3 678.3	1 544.2	1 481.8	62.4	3 554.3	1 901.2	838.8	1 062.4
1963	3 394.3	1 381.4	1 453.7	-72.3	3 323.3	1 540.4	826.7	713.7
1964	3 999.5	1 893.2	1 700.1	193.1	3 887.5	1 889.2	1 001.1	888.1
1965	3 617.0	1 014.8	1 848.6	-833.8	3 424.0	863.8	1 110.6	-246.8
1966	4 183.2	1 762.9	2 123.6	-360.7	3 981.2	1 638.9	1 405.6	233.3
1967	4 149.7	1 853.2	2 254.5	-401.3	3 937.7	1 703.2	1 518.5	184.7

Source: ECLA, on the basis of the "Economic Survey of Latin America, 1968" (E/CN.12/825).

/There are

There are no complete data available on the total amount of the region's external debt, and still less on the structure of its maturity period. The estimates most widely used are those prepared by the International Bank for Reconstruction and Development (IBRD), but they relate only to the public debt and the officially guaranteed private debt; they do not include private loans, trade arrears, the debt covering military aid, export credits not guaranteed by government agencies in the debtor countries, "purchases" from the International Monetary Fund (IMF), swaps, the internal debt payable in foreign exchange, or the debt with original maturity period of less than one year.2/ On the basis of the incomplete data available, the region's "official" external debt may be estimated at about 15,000 million dollars at the end of 1968. The total debt is probably not less than 20,000 million dollars.

The problem is not only the extent of the region's external indebtedness, but also that credit terms have hardened, with a reduction in the average amortization period and increases in interest rates.

(c) The growing burden of service payments

It may be assumed that the external debt has more than doubled from 1960 to 1968 and that the terms have deteriorated.

This assumption is based on an analysis of the way in which service payments (amortization, interest and profits) have grown thus far in the nineteen-sixties. In fact, they have doubled in absolute value, and their share of total income from goods and services has increased from 14 per cent in 1960 to 21 per cent in 1968.

Given the structure of maturity periods and interest rates for the debt contracted in recent years, debt servicing will continue to grow rapidly in the next few years. It is therefore anticipated that the balance-of-payments problems affecting the Latin American countries will be aggravated and that this will have an increasingly adverse effect on their capacity to import.

2/ In "Latin America and international trade policy" (E/CN.12/773), a study in depth is made of the subject, the conclusion being that these debts could raise the IBRD estimates by 40 per cent.

2. External financing prospects

If the analysis of external sector trends in the past few years show discouraging results, future trends can scarcely be considered any brighter. The various projections prepared by the United Nations specialized agencies and the ECLA secretariat combine to show that the potential external sector deficit will gradually increase, even if only at a moderate rate. This situation could be mitigated if there were a marked improvement in the conditions of external financing for developing countries, but an effective solution would necessitate sweeping changes in international trade policies and flows in the near future.

The lack of agreement concerning long-term solutions to the problems deriving from the inadequacy of the external sector in developing countries is occurring precisely in circumstances where the accelerated increase in the Latin American countries' external debt, in terms of maturity in the next few years, indicates that remittances abroad under the head of amortization and interest payments are likely to rise substantially. The prospects are even gloomier with the increase in remittances of dividends and returns on direct investment. It may further be assumed that royalty payments will also increase.

(a) Limited availability of funds

Although the financial assistance furnished to Latin America by multilateral agencies may increase in the next five years, if their express aims are fulfilled, this will in no way solve the problem of the financial gap.

At the last meeting of the Board of Governors, the President of IBRD said it was the Bank's intention to double investment in Latin America in the next five years. According to subsequent statements, the volume of gross loans may reach 700 or 800 million dollars in 1972; but this amount is merely hypothetical and will depend on the evolution of the capital markets in industrialized countries. The firm demand in those markets is responsible for the steady rise in interest rates, to the point where IBRD itself has extended loans at a weighted rate of 4.88 per cent in the 1965/66 financial years, 5.52 per cent in 1966/67, 6.17 per cent in 1968, and recently as much as 6.5 per cent.

/The financial

The financial burden involved in transferring the cost of those loans to the Bank's operations is hardly compatible with the concept of development loans. It means a recrudescence of balance-of-payments pressures in the borrower countries owing to heavier service payments, unless some solution can be found such as that envisaged in the "Horowitz proposal".

The volume of loans that can be granted by the International Development Association (IDA) is directly linked to the undertaking of the industrialized countries to replenish a total of 1,200 million dollars, one-third to be paid in each of the years, 1968, 1969 and 1970. It must not be forgotten that 40 per cent of those funds, representing the United States share, must be used for purchases in that country, which introduces the element of "tied credit" among the normal features of IDA operations (a maturity period of 50 years, a grace period of 10 years, no interest charge, and a nominal service commission). Since the position of the United States Government is based on fortuitous circumstances such as its current balance-of-payments difficulties, it is to be hoped that this condition will be excluded from the next replenishment operations.

In any case, IDA cannot be regarded as an important source of aid for Latin America. Up to 30 June 1968 the region had obtained 92 million dollars, or less than 7 per cent of IDA's total disbursements.

Since the commitment assumed by the Executive has not yet been ratified by the United States Congress, IDA cannot yet resume its operations, which are now at a standstill for want of resources.

Latin America's share of operations with the International Finance Corporation (IFC) is larger than that of any other region. This agency's contribution to external financing, however, although sizable considering the nature of its operations - promotion of private participation and direct intervention in basically industrial enterprises - does not run into very high figures. In fact, during the 1967/68 financial year, when IFC's operations reached the highest level since it was established, its commitments with Latin American enterprises totalled no more than 25 million dollars.

/The Inter-American

The Inter-American Development Bank (IDB) also expects to augment its lending resources over the next few years. The meeting of Governors approved an increase of 1,000 million dollars - payable half in 1968 and in 1970 - in its regular capital resources, which serve as backing for its loans. This Bank is also suffering the consequences of the rise in interest rates, since on 17 January 1967 it paid 5.2 per cent on the United States market for bonds at parity, and on 15 November 1967 it paid 6 per cent for bonds at 99.375 per cent of parity. The same year it paid 7 per cent on bonds at 99.5 per cent of parity for approximately 6 million dollars on the Belgian market. As a result, IDB must now charge up to 7-3/4 per cent on its loans to member countries.

The Special Operations Fund will be considerably strengthened with an increase of 1,200 million dollars payable in the period 1967-69. The contributions to that increase are being paid up by the Governments, which is particularly important if it is considered that in 1967 the Fund concluded 39 loan operations for a total of 313 million dollars, most of them at interest rates ranging from 2-1/2 to 3-1/4 per cent and with maturity periods of 20 to 30 years.

IDB also administers other resources placed at its disposal by countries not members of the Bank. In 1961-67 these resources amounted to the equivalent of 211 million dollars.

A potential source of multilateral resources is the United Nations Capital Development Fund, established on 13 December 1966 by virtue of General Assembly resolution 2186 (XXI). The purpose of the Capital Development Fund is "to assist developing countries in the development of their economies by supplementing existing sources of capital assistance by means of grants and loans, particularly long-term loans made free of interest or at low interest rates".

Expenses for operational activities will be met from the voluntary contributions made to the Capital Development Fund, in cash or in kind, by the States members of the United Nations and decided at an annual pledging conference. The first pledging conference was held on 31 October 1967 and only twenty-two countries promised to contribute the equivalent of 1,319,910 dollars; the General Assembly therefore recognized that the

/initiation of

initiation of the Fund's operations, scheduled for 1 January 1968, would have to be postponed. At the second conference, held on 18 November 1968, the contributions pledged totalled 1,356,716 dollars, many of them being subject to future parliamentary approval and for large amounts in unconvertible currency. Other countries announced that they would settle the amount of their contributions later. At neither of the two conferences did any industrialized country - either market-economy or socialist - pledge a contribution, thus defeating the purposes for which the Fund was established.3/

As with all decisions linked to the volume and conditions of "financial assistance", the future trend of the capital markets is bound up with problems of international monetary liquidity.

Efforts have continued within the established outline to create "special drawing rights" within the International Monetary Fund. Acceptance of the principle that a deliberate control should be instituted of the world supply of long-term monetary reserves is a positive factor in solving the problems deriving from the relatively sluggish growth of the international means of payment compared with the increase in world trade.

It might be expected that, once this system of supplementing international reserves were put into effect, the resulting greater potential liquidity would make for a readier flow of payments between countries. Unless the obstacles in the way of access to markets for products of developing countries are removed and the terms and volume of financial assistance are modified, the problem will subsist for developing countries.

3/ At the meeting of the Governing Council of the United Nations Development Programme (which administers the United Nations Capital Development Fund), held in January 1969, it was decided to put the Fund into operation with the contributions pledged by forty-two countries, amounting to 2,676,726 dollars. The representatives of Austria, Belgium, Canada, the Federal Republic of Germany, France, Japan, Switzerland, Tanzania, the United Kingdom, the United States and Venezuela said that their countries did not consider themselves bound by the resolution. The representative of Italy, while supporting the Governing Council's decision, expressed reservations regarding the invitation to contribute. The representative of Sweden also expressed reservations in that respect.

/It would

It would therefore be necessary to reiterate the need to link the creation of new reserve assets with development financing. Thus it would be possible to use counterpart funds in order to purchase IBRD bonds, contribute to IDA, help finance a commodity price stabilization system, refinance the external debts of developing countries, co-operate in currency stabilization programmes in countries afflicted by serious inflation, etc., as already been proposed at UNCTAD and other meetings. For these measures to be feasible, there would have to be a change in the present attitude of all countries to the handling of monetary problems, especially in relation to developing countries and among the developing countries themselves.

A succession of three acute monetary crises - affecting the pound sterling, gold, and the French franc - have recently shown how successfully the countries members of the Group of Ten can act through the General-Agreement to lend or the Gold Consortium operating on the London Gold Market, co-operating rapidly and efficiently with the country whose currency is threatened and supplementing its reserves until its difficulties can be overcome. Unfortunately, this co-operation does not extend to the developing countries, nor does such co-operation exist between them, possibly because of their generally precarious position.

Neither are the possibilities held out by bilateral aid any too promising. In the United States, which, according to the statistics published by the Development Assistance Committee (DAC) of the Organization for Economic Co-operation and Development (OECD) has contributed more than half of the financial aid extended to developing countries during the past decade, Congress has adopted a restrictive attitude, substantially reducing the sums requested by the Executive and diminishing the total amount available with respect to previous years. There is no indication that there may be any appreciable changes in favour of larger contributions of funds for implementation of Alliance for Progress goals, or in the form in which loans are extended.

The operations to be undertaken by the Agency for International Development (AID) in financial year 1969 will necessarily be highly concentrated. The United States Senate has revealed that 90 per cent of

/the funds

the funds to be used for country programmes will be made available to only fifteen countries, more than 80 per cent of the development loans will go to eight countries, and 95 per cent of the supporting assistance will be distributed among only four countries.[4]

As regards contributions from other countries, suffice it to say that both France and the United Kingdom - which rank next after the United States in the volume of financial aid - will probably adopt similar restrictive policies owing to their budget and balance-of-payments problems, which were considerably aggravated in 1968. Moreover, their financial assistance is already concentrated in the former African colonies and some of the Commonwealth countries respectively.

Of the remaining members of DAC, only the Federal Republic of Germany, Italy and Japan contribute fairly large sums. In recent years, the Federal Republic of Germany has accounted for 7 per cent of the total contributions to developing countries and multilateral organizations, and Italy and Japan, while not yet reaching that percentage, have considerably increased their contributions.

In the light of present conditions and prospects, it is definitely unlikely that there will be an over-all increase in assistance to developing countries in the near future, and the concentration of funds in a few countries may do even more to limit the funds available for Latin America; that is, of course, if there is no change in the existing conditions and prospects.

Financial assistance to Latin America from the socialist countries is confined to Cuba.

(b) Terms and conditions

One very important aspect of financial assistance is the form in which it is granted; this has more significance for economic development in the long term than the actual volume of the assistance. Looking at the terms and conditions under which financial assistance has been granted during the nineteen-sixties by the countries members of the OECD Development Assistance Committee (DAC), one finds a relative decline in contributions

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4/ Statement by Mr. Dean Rusk, United States Secretary of State, before the Senate Foreign Relations Committee, on 11 March 1968.

/to multilateral

to multilateral organizations because many donor countries often combine their development finance with arrangements of a political or purely commercial nature. There has been a noticeable rise in the amount of assistance granted in the form of commercial credits, while operations that may be classified as grants have remained stationary. Similarly, there has been a pronounced decline in the number of operations which the recipient country can reimburse in local currency, chiefly as a result of amendments to United States Public Law 480 - now reimbursements must be in dollars - while at the same time the volume of assistance under this law has dropped appreciably because of the decline in United States agricultural surpluses.

Another significant factor is the rapid rise in the amount of aid made available in the form of technical assistance, particularly by the United States, the United Kingdom and France. These countries were responsible for some 90 per cent of all the technical assistance furnished by DAC member countries in 1966. There have also been changes in the direction of aid which in recent years has tended to go primarily to the agricultural sector.

There has been very rapid growth in "tied" credit operations, despite the DAC recommendations that tied loans should be limited since they subvert the principle of financial assistance. Some countries, the United States for instance, have made it a condition that all new credit must be tied, on the grounds of balance-of-payments difficulties. On the other hand, while the volume of aid allocated to programmes has declined, the volume allocated to specific projects has risen.

Another of the purposes of financial assistance - with little weight in the total, however - is to solve balance-of-payments problems, either directly to cover temporary short falls, or to refinance old debts.

Private development assistance is extremely erratic and is affected by a number of variables, including the balance-of-payments problems of donor countries, political considerations arising out of such problems or relating to the recipient countries, and the situation of capital markets which has an effect on interest rates and repayment periods.

With regard to repayment periods and average interest rates, there has been a noticeable trend during the nineteen-sixties to harden the terms of assistance, with adverse effects on the structure of the external debt of the developing countries. The terms of assistance deteriorated notably in 1965, recovered slightly in 1966 [5/] but then took a downward turn in 1967 when, although the average length of grace and repayment period was much the same as in 1966, the weighted average interest rate rose sharply to around 3.8 per cent, the highest figure in the nineteen-sixties.

3. International action with respect to the problems of external financing

Certain decisions were adopted at the second session of UNCTAD relating to the problems of external financing. It may be useful to refer to these decisions to show the progress achieved in the external financing and the measures proposed to solve some of the problems.

(a) The one per cent target.

With regard to the volume of aid, it was decided that the term "national income" should be taken to mean gross national product at market prices, as the developing countries had argued, instead of net national income at factor cost, which was the understanding of the developed countries. However, the commitment to reach the target of 1 per cent of national income by the end of the Development Decade, which had been explicitly agreed earlier, was weakened when it was made clear that the target should be regarded as an incentive to greater efforts rather than as a ceiling or as a method for comparing development assistance efforts. Moreover, some countries - including the major donors - did not feel able to accept a precise date for attaining this minimum target, and the minority stated that they were prepared to meet it some time between 1972 and 1975. In addition, although there were some suggestions, no formal proposal was made to establish machinery to measure the volume and structure of financial flows, both the amounts supplied by the developed countries and the amounts received by the developing countries.

5/ See "Latin America and the second session of UNCTAD" (E/CN.12/803), table 18, p. 158.

Action in the future might well concentrate on centralizing the information produced by a number of sources - for example, the IBRD and the OECD Development Assistance Committee - in a subsidiary organ of UNCTAD. Further efforts will have to be made to obtain similar information concerning the socialist countries. This would help to show how the efforts of the developed countries to attain the one per cent target are progressing, as well as the quality of the assistance rendered and its effects on the economic development of the recipient countries. This information would also prove very useful, if the current economic situation changes with respect to the countries (chiefly the industrialized countries) which claim that balance-of-payments difficulties or domestic problems make it difficult for them to allocate budgetary resources for external assistance and also with respect to those other countries (chiefly the socialist countries) which plead other reasons for channelling the flow of their financial assistance, in stimulating the will of the donor countries to increase the volume of their financial assistance to meet the target of 1 per cent of gross national product as defined in decisions 27 (II) of the second session of UNCTAD.

(b) Terms and conditions of aid

With respect to this topic, the developed market-economy countries agreed to renew their efforts to achieve by the end of 1968 the terms and conditions for the provision of external resources laid down by the Development Assistance Committee of the OECD and by the General Assembly of the United Nations in resolution 2170 (XXI), and to begin a review in 1968 of the assistance furnished to see to what extent the Recommendations of DAC are being fulfilled.

Another positive aspect is the decision to study the possibility of applying a "Bisque clause" to the loans of the developing countries. Under this clause, debtor countries with balance-of-payments difficulties would be able to defer or cancel their amortization or interest repayments.

However, the developed countries avoiding committing themselves regarding the proportion of aid that should be provided in the form of grants or at low interest rates with extended grace and repayment periods, and merely took note of the suggestions made.

/The question

The question of external indebtedness is another problem for which practical solutions must be sought. Although the relevant part of decision 29 (II) shows no advance over the decisions adopted at the first session of UNCTAD, some developed countries which are large creditors indicated that they were prepared to participate in multilateral arrangements with those countries which were in a critical situation. In view of this attitude, it would be useful to explore the possibility of establishing an appropriate body and standards to study and solve the problems of excessively indebeted countries, whose payments on account of the external debt are more than a certain proportion of their export earnings over a given period. This would be much the same as following the existing arrangements for the refinancing of debts (The Hague and Paris Clubs, etc.)

Another field in which progress can probably be made is that of tied aid, since the developed market-economy countries indicated their readiness to untie aid progressively, although they pointed out that action would have to be concerned. In this respect, the United States representative stated that for balance-of-payments reasons his country was obliged to tie its aid in order not to reduce the total volume; however, since it anticipated that its difficulties were temporary, it was prepared to discuss measures for the progressive untying of aid.

It should be recalled, in this connexion, that the tied credit operations of the United States Agency for International Development (AID) have recently included certain conditions that make them less a form of financial aid for development and primarily a mechanism for the promotion of United States exports. Through the credit lines granted by AID to a number of Latin American countries a de facto preference has been established for United States suppliers, since potential Latin American importers are exempt from prior deposits, exchange surcharges and other restrictions which affect imports from all other countries. Moreover, since the repayment periods for these credits are as long as thirty years, with a ten-year grace period and low interest rates, they are often used to cover current budgetary expenditure which should be financed from domestic savings. It has been found that in some cases

/the merchandise

the merchandise imported under this type of arrangement is much more expensive than if purchased in other markets, although the advantages of long-term financing make it possible to absorb the differance in cost. Another aspect of the tied credits purchased by AID which has unfavourable effects on the expansion of trade between developing countries is that some of the products in the AID merchandise lists are also included in the National Schedules of the LAFTA countries, i.e., they are products for which concessions have been negotiated. Because of the exemptions enjoyed by imports from the United States, and the facilities for financing, it is virtually impossible to take advantage of these concessions. This is what happened recently with Chile's purchases of breeding stock which replaced imports from Argentina, and with Colombia's purchases of paper pulp which replaced imports from Chile.

The Scandinavian countries indicated that the aid-giving countries should begin netotiations with a view to preparing a plan designed to reduce and eventually eliminate tied aid. The socialist countries, on the other hand, defended the type of tied aid that they provide because of its low interest rates and repayment arrangements.

The Israel representative proposed that, in order partially to alleviate the negative effects of tied aid, an international clearing house should be established which the developing countries could use to swap the tied currency they obtained from loans.

Nevertheless, decision 29 (II) of the second session of UNCTAD does not properly reflect the aspirations of the developing countries, namely, measures to untie aid progressively and measures to prevent increases in the real costs of tied aid. A first step might be to explore the possibility of bodies granting or guaranteeing export credits in the industrialized countries undertaking not to accept operations in which the prices stipulated were higher than those prevailing in the domestic market of the supplier country.

As noted above, in recent years there has been an appreciable rise in the average rate of interest on the development loans granted by international financial institutions. Clearly, long-term loans at interest rates of 6 or 7 per cent, or even more, can hardly be considered genuine financial assistance.

/It has

It has also been noted that the trends of the financial markets do not give grounds for any hope that interest rates will fall, particularly since IBRD and IDB are currently planning to expand their operations, while the Asian Development Bank and the recently established African Development Bank have announced that they intend to operate along similar lines.

In order to alleviate the considerable burden such interest rates place on the balance of payments of the developing countries, particularly if the volume of loans is to increase appreciably, it would be useful to examine the specific aspects of the proposal for the establishment of an interest equalization fund to subsidize part of the cost of loans contracted by multilateral credit institutions. The fund could be financed by the economically more advanced countries, in group I of the International Development Association.

(c) Supplementary financing

The complementary financing scheme was discussed at length by the Inter-governmental Group on Supplementary Financing, which evaluated a report prepared by the IBRD and developed a number of points on which there were conflicting views within the Trade and Development Board. However, these disagreements did not prevent agreement being reached at the second session of UNCTAD on the general outline of the scheme, although certain controversial details were left to be solved at a later date by the body applying the scheme, which in the unanimous view of the members of the Inter-governmental Group should be the IBRD.

Although this view was shared by the Scandinavian countries, the Netherlands, the United Kingdom and all the developing countries (except Cameroon), some developed countries strongly opposed it, chiefly Australia, Belgium, Canada, France and Japan, on the grounds that no decision could be taken until the results of the studies on the stabilization of commodity prices, which the IMF had been requested to undertake in consultation with IBRD, were known. Some other countries, including the Federal Republic of Germany and the United States, pronounced themselves in favour of replacing the scheme with machinery which would be more simple to apply.

The developing countries submitted a draft authorizing the Inter-governmental Group to negotiate and decide on the features of the machinery, including draft statutes and proposals for financing, to be transmitted through the Trade and Development Board to the IBRD for implementation. This draft was not approved, and the Conference limited itself, in decision 30 (II), to recommending further studies on some of the controversial points.

The Inter-governmental Group recovered in October 1968 and drew up a list of topics that require more detailed examination by the UNCTAD secretariat and by the IBRD or the IMF.[6/]

With regard to the Compensatory Financing Facility of the IMF, the amendments made in October 1966 did not reflect any of the suggestions of the developing countries for liberalization. These suggestions were that members should be permitted to draw up to 50 per cent of their quota immediately, and not be limited to 25 per cent within any twelve-month period; that drawings should not be subject to any conditions; that the formula for calculating shortfalls should be modified; that provision should be made for refinancing compensatory drawings under the Facility, or that the period for the repurchase of drawings should be extended; and that the progressive interest provisions of the IMF should be revised.

The Special Committee on Latin American Co-ordination (CECLA) at its fourth session at the ministerial level (Santo Domingo, June 1968) requested ECLA to prepare, in co-operation with other competent Latin American bodies, suggestions and guidelines for improving the supplementary financing scheme for its consideration and eventual transmission to the expanded Inter-governmental Group. A report was prepared jointly by ECLA and the Centre for Latin American Monetary Studies (CEMLA) and was submitted to the Eighth Meeting of Governors of Central Banks of Latin America. The report reaffirmed the arguments in support of the establishment of a system of supplementary financing to counteract the adverse effects on of shortfalls in export earnings on development plans.

6/ See UNCTAD, "Chairman's report on the fourth session of the Inter-governmental Group on Supplementary Financing" (TD/B/200), January 1969.