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Meeting of Latin American Government
Experts on Trade Policy

(Preparatory to the United Nations
Conference on Trade and Development)

Brasilia, January 1964

LATIN AMERICA AND THE UNITED NATIONS CONFERENCE
ON TRADE AND DEVELOPMENT

Note: The present version is provisional and is subject to changes
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N O T E

The designations employed and the presentation of the material in this publication do not imply the expression of any opinion whatsoever on the part of the ECLA secretariat concerning the legal status of any country or territory or of its authorities, or concerning the delimitation of its frontiers.

1. The first part of the document discusses the importance of maintaining accurate records of all transactions and activities. It emphasizes that this is crucial for ensuring transparency and accountability in the organization's operations.

2. The second part of the document outlines the various methods and tools used to collect and analyze data. It highlights the need for consistent data collection practices and the use of advanced analytical techniques to derive meaningful insights from the data.

3. The third part of the document focuses on the role of technology in data management and analysis. It discusses how modern software solutions can streamline data collection, storage, and analysis processes, thereby improving efficiency and accuracy.

4. The fourth part of the document addresses the challenges associated with data management, such as data quality, security, and privacy. It provides strategies to mitigate these risks and ensure that the data remains reliable and secure throughout its lifecycle.

5. The fifth part of the document concludes by summarizing the key findings and recommendations. It stresses the importance of a data-driven approach in decision-making and the need for continuous monitoring and improvement of data management practices.

INTRODUCTION

The Economic Commission for Latin America, at its tenth session (Mar del Plata, Argentina, 6 to 17 May 1963), took note of General Assembly resolution 1785 (XVII) and Economic and Social Council resolution 917 (XXXIV), by virtue of which the United Nations Conference on Trade and Development was convened.

This development was considered with the greatest interest by the Commission, and there was unanimous agreement that the Conference on Trade and Development would provide Latin America with an outstanding opportunity for bringing home to world opinion the serious nature of its trade problems. The Commission accordingly adopted resolution 221 (X), in which it recommends the ECLA secretariat to concentrate its efforts on the preparation of those studies which are intended for the said Conference, with a view to seeking ways and means of solving Latin America's foreign trade problems and meeting the requirements of its economic development. It was further recommended that such studies should be developed in such a way that they may provide sufficient data to enable the Latin American countries to adopt a concerted position at the Conference. Lastly, the secretariat was requested to hold a seminar on the United Nations Conference on Trade and Development, with the co-operation of specialists appointed by the Governments of all the Latin American countries.

In fulfilment of this request, the secretariat has prepared the following report and has organized the Meeting of Latin American Government Experts on Trade Policy which, at the kind invitation of the Government of Brazil, is to open in Brasilia on 20 January 1964. The report will be discussed at that meeting and consideration will be given to the view that the Latin American countries intend to present to the Conference at Geneva.

It should be pointed out that a group of eminent Latin American consultants have given the secretariat the benefit of their wide experience and have made valuable suggestions on the preparation of the present report. The consultants had two meetings with members of the ECLA secretariat in Santiago, Chile; the first, in October 1963, to discuss the basic ideas of the report, and the second, in December of the same year, to analyse the draft prepared by the secretariat. This broad exchange of view was the basis for the final version of the document.

The consultants invited by the secretariat served strictly as experts and in a personal capacity. The following experts took part in one or both of these meetings:

Eduardo Figueroa, former Minister of Finance, Chile;

Plácido García Reynoso, Under-Secretary for Trade and Industry, Mexico;

Adalberto Krieger Vasena, former Minister of Finance, Argentina;

/Julio Lacarte

Julio Lacarte Muro, Uruguayan Ambassador to the Federal Republic of Germany;

Carlos Ileras Restrepo, Senator and former Minister of Finance, Colombia;

Marcio do Rego Monteiro, of the Planning Service of the Office of the President, Brazil;

Jorge Sol, former Minister of Finance, El Salvador;

Enrique Gastón Valente, Agricultural Attaché, Argentine Embassy to the United States of America.

The report comprises the following chapters:

- I. Foreign trade and economic development of Latin America
- II. The main obstacles to an expansion of Latin America's foreign trade
- III. Future prospects and lines of action
- IV. Principal background data in respect of the world trade
- V. Requisites for a new structure of international trade and ways of achieving such a structure

The first four chapters contain an analysis of the problems posed by trade within the context of Latin America's economic development, a description of the present structure of international trade, and other data that must be taken into account in attempting to formulate a trade policy.

Chapter V sets forth the conclusions derived from the study and formulates suggestions for seeking solutions to Latin America's foreign trade problems which are dangerously restricting its economic growth. The secretariat, in putting forward these suggestions for consideration by the Latin American Governments, is carrying out the directives it received from them at the Conference at Mar del Plata, and trusts that its contribution will facilitate the important task assumed by those Governments of presenting a united front at the forthcoming Conference in Geneva.

LETTER OF TRANSMITTAL FROM THE GROUP OF LATIN AMERICAN EXPERTS
WHO ACTED AS CONSULTANTS TO THE SECRETARIAT IN THE DISCUSSION
OF LATIN AMERICA'S INTERNATIONAL TRADE PROBLEMS

Santiago, 17 December 1963

To the
Executive Secretary of the
Economic Commission for Latin America

Sir,

At its tenth session, held at Mar del Plata, the Economic Commission for Latin America requested its secretariat to give priority to the study of the problems that were to be discussed at the United Nations Conference on Trade and Development and to prepare a seminar at which the Latin American Governments could consider their position with respect to those problems prior to the said Conference. In compliance with this recommendation, you were kind enough to request our co-operation as consultants, and thus, in the course of two series of meetings held from 9 to 16 October and from 9 to 17 December, we had an opportunity of discussing with the secretariat experts, under your able leadership, the world trade situation in general and, in particular, the effects of its evolution in recent years on our countries' rate of development. Certain general guidelines were laid down, and the secretariat then proceeded to expound and substantiate these ideas in a draft report, to a major part of which we have devoted careful consideration. We are essentially in agreement with the structure of this study, the economic analyses on which it is based and the conclusions formulated.

There is no room for doubt as to the deterioration of the relative position of the developing countries within the world economy as a whole, and the role played in this unfortunate turn of events by existing patterns of foreign trade. It becomes daily more evident that the objectives envisaged by the General Assembly of the United Nations, when it described the sixties as a "development decade", are meeting with frustration and that the immense and increasing disparity between some countries and others is defeating the international co-operation efforts made in recent years. The testimony of the report is conclusive in these respects, as far as they concern Latin America in particular, and all the characteristic features of the situation are clearly defined, together with the mechanism of the international phenomena to which it is largely due and by which it is still being aggravated. The deterioration of the terms of trade, the decline in the rate of development, the steadily increasing burden of financial services, the consequent contraction of external purchasing power for which no satisfactory compensation can be obtained through mere financial operations, the distortions warping the traditional

/mechanism of

mechanism of external transactions, the increasing rigidity in the volume and composition of imports, and the decrease in international reserves, are objectively demonstrated. In face of all this evidence, it is easy to understand the alarm with which various international agencies view the present situation and the interest displayed by distinguished writers and statesmen in the study of formulas whereby it can be metamorphosed.

The causes that have brought about this state of affairs are of widely differing kinds. Some relate to the very nature of Latin America's traditional exports, to the small number of commodities they comprise, to the limited elasticity of consumption in respect of certain items and to over-production in other instances. But other determining factors are constituted by serious defects in the organization of world trade; autarkical trends and discriminatory practices whose impact on Latin America is direct and profoundly disturbing; regulations and revenue duties that restrict demand; shortcomings in the action of the existing agencies; and the inflexible application of principles whose inequitable consequences are only now beginning to be generally recognized.

The outlook for the next few years, if radical and timely reforms are not introduced, is gloomy indeed. By the end of the present decade, the proportions of the deficit in external resources will be incompatible not only with acceptable rates of development but even with the maintenance of order and normality in economic and social life.

Hence it is patent that concepts and institutions must be reviewed with an open mind, new rules and principles must be promulgated, and measures that will alter the present course of events must be put into effect. This need has already been recognized by the international agencies, and thence it came about that the United Nations Conference on Trade and Development was convened. From this Conference intensive and co-ordinated action must emanate, and the Latin American countries must call it forth and then give it vigorous impetus, for on it will largely depend their own future and the stabilization of the entire world economy.

A more efficient integration of international trade is clearly the foundation-stone for the indispensable reforms - integration with due regard to the special patterns created by the formation of international communities and associations at the level of specific economic relationships; to the fact that an important group of countries lives and acts under an economic and social system based on principles different from those prevailing among the Western nations; and to the vast disparities in stages and rates of development to which allusion has already been made. The establishment of free-trade areas and common markets should not be reflected in an intensification of trends towards self-sufficiency which run counter to the healthy expansion of world trade and generate serious distortions in trade flows. Similarly, it is essential to recognize the necessity of maintaining normal and stable economic relations between countries belonging to different systems, on the basis of principles and practices that must be discussed with the requisite frankness for

genuine agreement to be reached. The "co-operative coexistence" of the two groups - the countries characterized by a market economy, and the centrally-planned economies - is of importance not only for the great nations composing them but also for the developing countries, which will find in this new climate positive opportunities for the expansion of their trade.

Lastly, it is clear that a true integration of international trade cannot fail to take account of the role such trade plays in income distribution and in determining the immense disparities now observable. If the growth of trade is to be steady and lasting, the external purchasing power of the developing countries must be substantially increased, and they must secure an equitable share in the income increment, so that the present tremendous gap between them and the industrialized countries may thus be narrowed, instead of continuing to widen, as is the case today. The perpetuation of existing circumstances would operate as a factor making for disintegration, with consequences too far-reaching to be predicted.

The new process must be based, in our opinion, on acceptance of certain ideas which lie behind the recommendations formulated in the report to which we refer. First and foremost, it can no longer be considered equitable to apply the same standards and regulations to countries at different stages of development and totally unlike as regards the resources and technology at their disposal. Such uniform treatment de facto implies inequity, unquestionably redounds to the detriment of the weaker party. The whole of the economic history of the last few years witness to the truth of this assertion.

If we start from this basis, already accepted by eminent figures in the industrial countries, we necessarily arrive at a series of conclusions of great importance for the regulation of international trade. Thus, for example, in the field of tariff reductions there would be no place for the exaction of strict reciprocity. Nor could the saving clauses established possibly be the same for countries with very limited resources and for those possessing a vast range of instruments and media which make it relatively easy for them to eliminate the distortions that the cross-currents of international relations might possibly cause in this or that sector of their economic organization.

Another case in point is afforded by the unconditional application of the most-favoured-nation clause. The principles underlying it must be reconsidered in the light of the preferences that the industrial countries should grant to the less developed economies.

Other guiding principles for a development policy in relation to international trade might also be enumerated. They would include the necessity of adopting measures which will facilitate the diversification of exports and the access of manufactured goods from the developing countries to the areas possessing greater purchasing power; the undesirability of setting up fiscal systems in the advanced countries which raise

the prices of goods from the developing countries and consequently restrict consumption of such products; the inadmissibility of practices which, for the sake of protecting some developing countries, do manifest harm to others; the urgent need for the centrally-planned economies to adjust the principles of their economic system to the requirements of a vigorous and steady expansion of world trade; the importance of rectifying those autarkical trends which, under new guises, have seriously distorted the traditional conditions of trade in certain products. All these principles, and others set forth in detail in the report, provide a basis for the recommendations with which it concludes.

* * * * *

At no time has it been forgotten that development cannot be achieved through measures of international co-operation alone. Nothing whatsoever can replace a persevering and methodical internal effort. But the forms it must take are well known, and there is no point in recapitulating them here. At all events, it is obvious that the rate of investment required for the attainment of even the modest rate of development contemplated in resolution 1710 (XVI) of the General Assembly, concerning the United Nations Development Decade, cannot be reached in Latin America without a considerable improvement in the region's terms of trade. If this improvement is to be adequate and sustained, substantial reforms must be introduced. Exports must be diversified to prevent continued dependence on the sale of a few basic commodities; industry must be developed on the basis of broader markets; the geographical area of Latin America's trade must be extended; in short, steps must be taken to guarantee the region an external income less subject to fluctuations and a great deal higher than at present, so that it may be able to import the volume of goods and services required for a reasonable rate of development. The attainment of these objectives is the aim of the recommendations presented in the report. The suggestion that the industrial countries should accord a general preference to manufactured goods from the developing economies embodies the idea of diversification, while the proposals relating to the closer integration of world trade are designed to open up new markets.

But we should be the victims of deliberate self-deception if we tried to blink the fact that only over the long term could these and other measures have an appreciable effect on the composition and value of Latin America's exports. Consequently, if a standstill in development is to be averted, it is essential to act at once with respect to traditional exports. This implies basic reforms in certain aspects of the economic policy of the industrial countries, and, in some instances, concerted international action to offset the harmful repercussions of consumption or supply trends in respect of certain products.

In different ways and on different occasions, attention has already been drawn to the pressing need to eliminate tariff duties on tropical products, as well as - within reasonable time limits - internal taxes

/on consumption

on consumption of these commodities, and to abolish the various types of preferences at present extended in favour of specific developing countries, often as a quid pro quo for other preferences granted to industrial countries. Such measures, whose equity and desirability are obvious, are clearly and judiciously formulated in the recommendations presented in the report. On the one hand, taxes restricting the volume of consumption must be lifted in the interests of all producer countries, especially as they generally affect items which are in plentiful supply, and production of which cannot easily be replaced by other lines. Moreover, it does not seem natural that certain producers should enjoy protection at the direct expense of other developing countries. Discriminatory preferences of this kind have long been the object of criticism and even the Havana Charter already sought to reduce them to a minimum with a view to their subsequent elimination. Paradoxically, today they are more numerous than ever, despite the provisions of the General Agreement on Tariffs and Trade, which is based on the same underlying principles as the Charter.

We sincerely believe that the recommendations of the report on these points would lead to positively beneficial results for all the developing countries. Clearly, moreover, the great industrial countries are in a position to apply, as means of promoting the development of areas associated with them, measures different from those whose discriminatory character renders them inadmissible for Latin America.

The low elasticity of consumption of tropical products - attributable to various causes - and the limited mobility of the factors of production have conduced, as has been pointed out, to disequilibria in the markets for certain commodities and to a serious deterioration of the terms of trade. Similar situations seem to be developing in respect of other items from the same source. They must be tackled by means of concerted international action on the part of producers and consumers to remedy the deterioration in question, since it is unfair that countries with a high per capita income should take advantage of the decline in relative prices in ways that are detrimental to the development of the producer countries. In planning such action, allowance will of course have to be made for the peculiar features of the market for each product, the elasticity of consumption, the problem of possible substitution processes, which may involve a prolonged period of over-production, and other factors. But, as a general rule, the commodity agreements already in force and those that may be concluded in the future should alike be administered with the essential aim of remedying the deterioration of the terms of trade and thus giving producer countries the time and the resources they must have if they are to make the necessary readjustments and diversify their exports. These readjustments and this diversification could hardly be put into effect in an atmosphere of economic crisis, characterized by a strong contraction in external purchasing power.

/The situation

The situation of the developing countries whose external trade economy is mainly dependent upon temperate-zone products has been given special consideration in the report. The problems arising in this connexion are primarily linked to the protectionist practices that the industrial countries have established in favour of their agricultural production, through tariffs, subsidies and other media, as well as to the surplus disposal programmes they apply. These factors have already determined major distortions in world trade, and it is impossible to view without misgiving the spread and consolidation of trends so seriously prejudicial to the developing countries. In this connexion, what was said of the situation of tropical products still holds good: a well-ordered economic development effort is not even conceivable in the atmosphere of crisis maintained and daily intensified by autarkical practices that encourage anti-economic production and provide a basis for unfair competition in international markets.

The recommendations contained in the report do not overlook the existence of certain situations that affect employment and income levels among the rural population in industrial countries. On the contrary, they take these into account, and seek equitable formulas whereby they can be reconciled with the basic interests of the developing countries. But, since it is nowadays fully recognized that current international trade conditions are severely handicapping development in vast areas of the world, the more affluent countries cannot reasonably object to the idea of tackling their rural population problems by methods that would not have the distorting effect of those applied today.

The contrast between the food surpluses in some parts of the world and in others the chronic shortage of food and the under-consumption mainly imputable to the low income levels of many developing countries is a problem that still subsists, despite all the efforts made in recent times to secure a more rational distribution of foodstuffs. Unquestionably, the forthcoming conference should review the existing mechanisms and make a stand against this basic anomaly which is still issuing its challenge to human imagination and inventiveness and putting the principles of economic theory to the test.

The report includes important recommendations on several other subjects: problems relating to mining products; encouragement of the processing of basic commodities in their countries of origin; relations among the developing areas; compensatory financing; and the organization that should promote the new international trade policy. This last point is clearly of transcendental importance. World trade can only be better integrated and adjusted to the needs of development by means of a prolonged effort which must be made through flexible, dynamic agencies endowed with their own media for attaining the ends pursued. We fully acknowledge what has been achieved so far by the existing institutions, and the relative value of the plans that have been drawn up to remedy the most striking defects observable in the operation of international trade. Nevertheless, it is plain that in their present form such plans are

/not calculated

not calculated to meet the imperative demands of an age in which the great majority of the human race is seeking access to the welfare and progress at present enjoyed by only a small number of countries, and in which the principles of international solidarity and common security are clamouring for new patterns of international co-operation that will be fairer and more effective than those prevailing today.

We believe that the report of the Economic Commission for Latin America will provide the countries of the region with a valuable instrument for the study of the policy they are to pursue at the United Nations Conference on Trade and Development. It is our earnest wish that they may all rally round the standard of principles in whose defence it is more than ever essential to present a united front.

With renewed expressions of our gratitude for your invitation to us to collaborate in the work of the Commission on so vitally important a matter, we have the honour to be, Sir, your obedient servants,

Eduardo Figueroa
Plácido García Reynoso
Adalberto Krieger Vasena
Julio Lacarte Muro
Carlos Lleras Restrepo
Marcio do Rego Monteiro
Jorge Sol
Enrique Gastón Valente

Chapter I

FOREIGN TRADE AND ECONOMIC DEVELOPMENT OF LATIN AMERICA

A. EVOLUTION OF THE EXTERNAL SECTOR AND ITS EFFECT ON ECONOMIC GROWTH

B. Decline of the growth rate in Latin America as compared with other areas

The present analysis of the state of the Latin American economy and its development prospects shows that there is a pressing need for far-reaching changes in the external and internal conditions of the Latin American countries. Unless these changes are brought about, Latin America will not be able to achieve the modest targets established by the United Nations General Assembly under the Development Decade programme or those set forth at the Conference of Punta del Este in 1961. Moreover, many Latin American countries will have serious difficulty in maintaining their per capita income levels.

In the post-war period, Latin America did not succeed in creating conditions conducive to sustained economic growth. Although growth rates were satisfactory in the early post-war years, they declined in the fifties and fell below the targets mentioned above (see table 1). In fact, the annual growth rate of real per capita income slowed down, falling from a rate of 4.2 per cent in the early post-war years to 1 per cent in 1955-60. While there was a slight improvement in 1961, it fell again in the following year to almost zero.

The already wide differences between income levels in Latin America and the economically developed areas of the world have thus been increasing, and the slow growth rate in Latin America compares very unfavourably with the rapid growth in other areas.^{1/} The higher growth rates achieved in other areas in the process of development show that the Latin American economy is affected by specific limiting factors that deepen the misgivings about the future of the region's development (see table 2).

There is a growing conviction in Latin American government, political and social circles, that if Latin American societies are to be set on the right road to development, certain institutional, social and economic reforms must be instituted. These reforms will permit proper use of the region's abundant natural and human resources through the application of a planned economic and social policy which, by allowing efficient methods

^{1/} See Methodological Annex for the criteria used in dividing countries into groups.

Table 1

LATIN AMERICA: GROWTH RATE OF THE PRODUCT, AND OF TOTAL AND
PER CAPITA REAL INCOME, 1945-62

(Annual cumulative percentage)

Year or period	Total		Per capita	
	Gross product	Real income	Gross product	Real income
1945-50	5.7	6.8	3.2	4.2
1950-55	4.7	4.5	2.0	1.7
1955-60	4.1	3.6	1.3	0.8
1961	5.4	4.8	2.6	2.0
1962 ^{a/}	3.1	3.1	0.3	0.3

Source: ECLA estimates based on national statistics.

^{a/} Provisional.

/Table 2

Table 2

ANNUAL GROWTH RATES OF THE TOTAL AND PER CAPITA GROSS PRODUCT IN VARIOUS COUNTRIES AND AREAS OF THE WORLD, 1950-61a/

(Percentage)

Country or area	Gross domestic product	
	Total	Per capita
<u>Under-developed areas</u>	<u>4.6</u>	<u>2.4</u>
Latin America	4.5	1.7
<u>Developed areas</u>	<u>3.7</u>	<u>2.5</u>
Australia	3.9	1.6
Canada	3.7	1.1
EEC countries	5.6	4.6
European countries of the OECD	4.6	3.7
Japan	9.5	8.3
New Zealand	3.5	1.3
United States	3.1	1.4
<u>Countries with centrally planned economies b/</u>		
Bulgaria	9.7	8.9
Czechoslovakia	7.7	6.4
East Germany	8.8	9.5
Hungary	6.0	5.3
Poland	7.7	5.9
Romania	10.2	8.9
Soviet Union	10.5	8.9
Yugoslavia	7.3	5.9

Sources: United Nations, World Economic Survey 1961, Yearbook of National Accounts Statistics 1962, Statistical Yearbook 1962 and Economic Survey 1962, New York, 1963; OECD, General Statistics Bulletin, Paris, November 1962, and ECLA estimates based on national statistics.

a/ For Canada, the European countries of OECD, Latin America and the United States figures relate to the period 1950-61; for the developed and under-developed areas considered as a whole, and in general for the countries with centrally planned economies, they are for 1950-59. For Japan they are for 1950-60, and for Australia and New Zealand they are for 1950/51-1960/61.

b/ Net physical product.

and techniques to be introduced, will effect a rapid increase in productivity and ensure a more equitable distribution of income.

While many Latin American countries have taken the first steps to introduce these reforms, and some countries are already applying them, generally speaking the desired goals are still far from being attained.

Latin America's inadequate development and the deterioration of its foreign trade are the main reasons for the slowing down of the growth rate and for the danger not only that the results expected from the above-mentioned reforms will not be achieved, but that the application of the reforms themselves will be severely hampered.

Current international economic policy is marked by a considerable decline in the demand for Latin American products, which can no longer play its traditional role as a dynamic factor, and the unsatisfactory state of Latin America's foreign trade constitutes the main bottleneck in carrying out the region's development plans. Consequently it is useful to consider how Latin America's foreign trade has developed in relation to world trade.

2. Slow expansion of Latin American foreign trade

To judge by the dollar value of exports, Latin American foreign trade represented between 7 and 8 per cent of world trade before the Second World War, when there was already a relative decline, since before the Depression (1928) Latin America's share was over 9 per cent.

In the first post-war years Latin America's share increased to 11 per cent, but since then it has been declining and today represents only 6.5 per cent of world exports (see table 3).

There are two main reasons for this relative decline in Latin American exports: the first, of a general character, is the relative expansion of trade in manufactures and the second, more specific, is the drop in Latin America's supply of primary commodities to its traditional markets in the developed areas.

This decline has not been offset by any increase in trade with other areas (industrialized or in the course of development) except for the area of the centrally planned economies, where there was some increase, although relatively small. Only in Cuba has there been an almost complete shift of foreign trade. The combined effect of the various factors is shown in table 4, which gives Latin America's percentage share of the total imports of countries in other areas.

In 1948 Latin American exports represented 35 per cent of the total imports of the United States, whereas they now constitute only 22 per cent, a percentage which is also below that for the pre-war period. In the countries of the European Economic Community Latin America's share has

/Table 3

Table 3
REGIONAL SHARES IN WORLD EXPORTS, 1938-62
(Percentage)

Year	Developed areas	Under-developed areas		Countries with centrally planned economies b/	Total
		Latin America a/	Other		
1938	64.7	7.3	17.9	10.1	100.0
1948	63.4	11.4	18.8	6.4	100.0
1952	64.9	8.8	17.5	8.8	100.0
1953	64.5	9.3	16.5	9.7	100.0
1954	63.9	9.3	16.6	10.1	100.0
1955	64.4	8.6	16.9	10.1	100.0
1956	65.9	8.4	15.8	9.9	100.0
1957	66.9	7.8	15.1	10.2	100.0
1958	65.6	7.7	15.4	11.3	100.0
1959	65.2	7.2	15.3	12.3	100.0
1960	66.8	6.8	14.6	11.8	100.0
1961	67.5	6.5	14.3	11.7	100.0
1962	67.2	6.5	14.2	12.1	100.0

Sources: United Nations, Statistical Yearbook 1962, op. cit., and Monthly Bulletin of Statistics, New York, June 1963.

Note: The original data are expressed in terms of the dollars for the respective years, and cover world trade excluding trade between China (mainland), Mongolia, North Korea and North Viet Nam.

a/ Including Cuba.

b/ Excluding Cuba.

/declined from

declined from 8 or 9 per cent to 5.5 per cent. There has been a similar trend in Latin American exports to the countries of the European Free Trade Area, as well as to Japan, in spite of its extremely high growth rate and to the areas in the process of development.

The countries with centrally planned economies are the only exception to this trend, since Latin America's share of their total imports has increased, largely as a result of the concentration of Cuban exports to that area, which also partly explains Latin America's smaller share of total United States imports (see table 4).

Since the above analysis of Latin America's share of world trade was based on current export values, ^{2/} the evolution of prices and quantities may have affected the percentages. In fact it can be shown that the reduction in the share of Latin American exports was due to two factors: (a) the fall in relative prices and unit costs of Latin American products, and (b) the comparatively small expansion of the volume of exports. The effect of the first factor is studied in section B. The slow growth of the volume of Latin American exports is clearly shown by a few statistics (see figure I and table 5).

In 1962 the volume of Latin America's exports was only 70 per cent higher than in 1938, and if petroleum is excluded the increase amounts to only 40 per cent. During the same period the volume of world exports more than doubled, and exports from the United States, Canada, and western Europe nearly tripled. Similarly, other areas in the course of development or with an economic structure similar to that of Latin America increased their foreign trade to a much greater extent: Australia, New Zealand and South Africa by 130 per cent, and Central Africa by 150 per cent.

If the volume of Latin American exports before the Depression is taken as a basis of comparison, the striking fact emerges that exports from the region as a whole have increased by only 30 per cent and, if petroleum is excluded, have changed hardly at all.

Even over the past seven or eight years, when Latin American exports increased more rapidly, the rate was still lower than for other areas. Thus Latin America appears to be more or less excluded from the internal and external expansion of one area of the world economy from which in the past it received strong stimuli to its growth.

^{2/} The tables were compiled on the basis of the figures appearing in the customs registers of the Latin American countries. It is recognized that changes are made in the destination of exports: for example, the share of some areas, such as the centrally planned economies, may in fact be greater, and therefore the share of other areas less, although the quantitative differences involved in such changes are probably small in relation to the figures given in the tables.

/Table 4

Table 4

SHARE OF LATIN AMERICAN EXPORTS IN TOTAL IMPORTS TO OTHER AREAS^{a/} 1938-62

(Percentage)

Year	Developed areas						Under-developed areas		Countries with centrally planned economies	
	North America		Western Europe			Japan	Total b/	Latin America		Other regions c/
	United States	Canada	EEC	EFTA	Total					
1938	24.4	2.6	8.2	6.4	7.0	2.4	8.3	7.6	4.3	1.6
1948	35.1	4.8	9.4	9.6	9.8	10.9	13.6	10.8	7.5	2.8
1952	34.0	3.7	6.7	5.1	5.8	8.9	11.4	9.4	5.8	0.3
1953	33.9	3.3	7.5	6.7	6.9	11.3	12.2	12.1	5.6	0.5
1954	34.1	2.9	8.0	5.8	6.9	13.6	11.7	10.4	6.3	1.9
1955	31.2	2.9	6.9	5.4	6.1	10.8	10.5	11.1	5.5	2.1
1956	31.0	3.0	7.1	5.9	6.4	11.0	10.7	9.0	4.9	1.1
1957	29.9	2.5	6.5	6.2	6.2	7.1	10.1	8.7	4.1	1.1
1958	28.2	3.0	6.3	5.6	5.8	8.4	9.8	9.3	4.4	1.4
1959	24.2	2.9	6.2	5.2	5.6	8.3	9.1	9.5	4.4	1.1
1960	24.5	2.6	5.7	4.7	5.1	9.6	8.3	8.7	4.1	2.0
1961	22.6	3.0	5.3	4.5	4.8	7.1	7.7	7.1	4.3	3.7
1962	21.2	3.2	5.5	4.5	5.0	7.5	7.6	7.7	4.2	4.0

Sources: United Nations, Yearbook of International Trade Statistics, 1959, vol. I, New York 1960, and Statistical Yearbook 1962, op. cit.

a/ Latin American sales as a percentage of the fob value of total exports to the areas included in the table.

b/ Also includes, in addition to the countries specified in the table, Australia, New Zealand and South Africa.

c/ Aruba and Curaçao absorb a very high proportion of these exports.

Table 5

INDEX OF THE QUANTUM OF WORLD EXPORTS, BY AREA, 1962

	Quantum of exports	
	1938 = 100	1948 = 100
<u>World</u> ^{a/}	<u>228</u>	<u>236</u>
Developed areas ^{b/}	259	259
Under-developed areas	170	185
<u>Africa</u> ^{c/}	221	218
<u>North America</u> ^{d/}	285	150
<u>Latin America</u>		
Including petroleum	<u>169</u>	<u>154</u>
Excluding petroleum	<u>140</u>	<u>140</u>
<u>Western Europe</u>	276	345
EEC ^{e/}	334	588
EFTA ^{f/}	227	216
<u>Middle East</u>		
Including petroleum	397	323
Excluding petroleum	153	200
<u>Australia, New Zealand and South Africa</u>	231	195
<u>Central Africa</u> ^{g/}	257	215
<u>Asia</u> ^{h/}	118	255

Sources: United Nations, Statistical Yearbook 1962, op.cit., Yearbook of International Trade Statistics 1961, New York 1963, and Monthly Bulletin of Statistics, New York, July 1963.
In all these sources 1958; is taken as the base year.

^{a/} Excluding the trade of Albania, East Germany, Bulgaria, North Korea, Czechoslovakia, China (mainland), Hungary, Mongolia, Poland, Romania, Soviet Union and North Viet Nam.

^{b/} Includes Australia, Japan, North America, New Zealand, South Africa and Western Europe. As indicated in footnote ^{a/} above, the "world" is regarded as consisting of the developed and the under-developed areas.

^{c/} The African mainland plus its associated islands.

^{d/} United States and Canada.

^{e/} Member countries of the EEC.

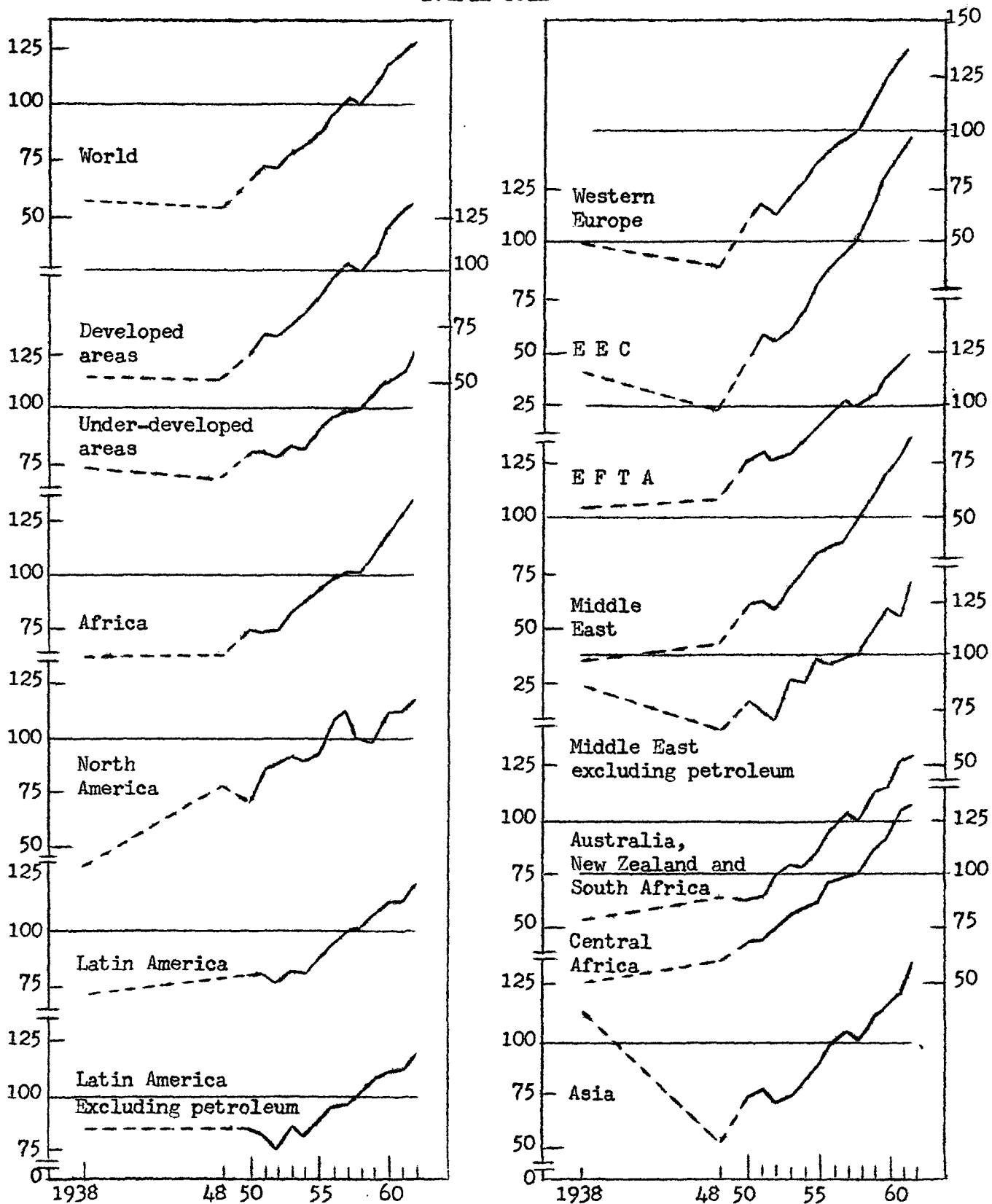
^{f/} Member countries of the European Free Trade Association.

^{g/} Africa excluding Morocco, South Africa, Algeria, Ethiopia, Lybia, the United Arab Republic, Somalia, Sudan and Tunisia.

^{h/} Excluding the Middle East but including Japan.

/Figure I

Figure I
 INDICES OF THE PHYSICAL VOLUME OF WORLD EXPORTS, BY REGION
 (1958 = 100)
 Natural scale



Source : United Nations, Statistical Yearbook 1962, New York, 1963,
Yearbook of International Trade Statistics, 1961, New York, 1963, and
Monthly Bulletin of Statistics, New York, July 1963

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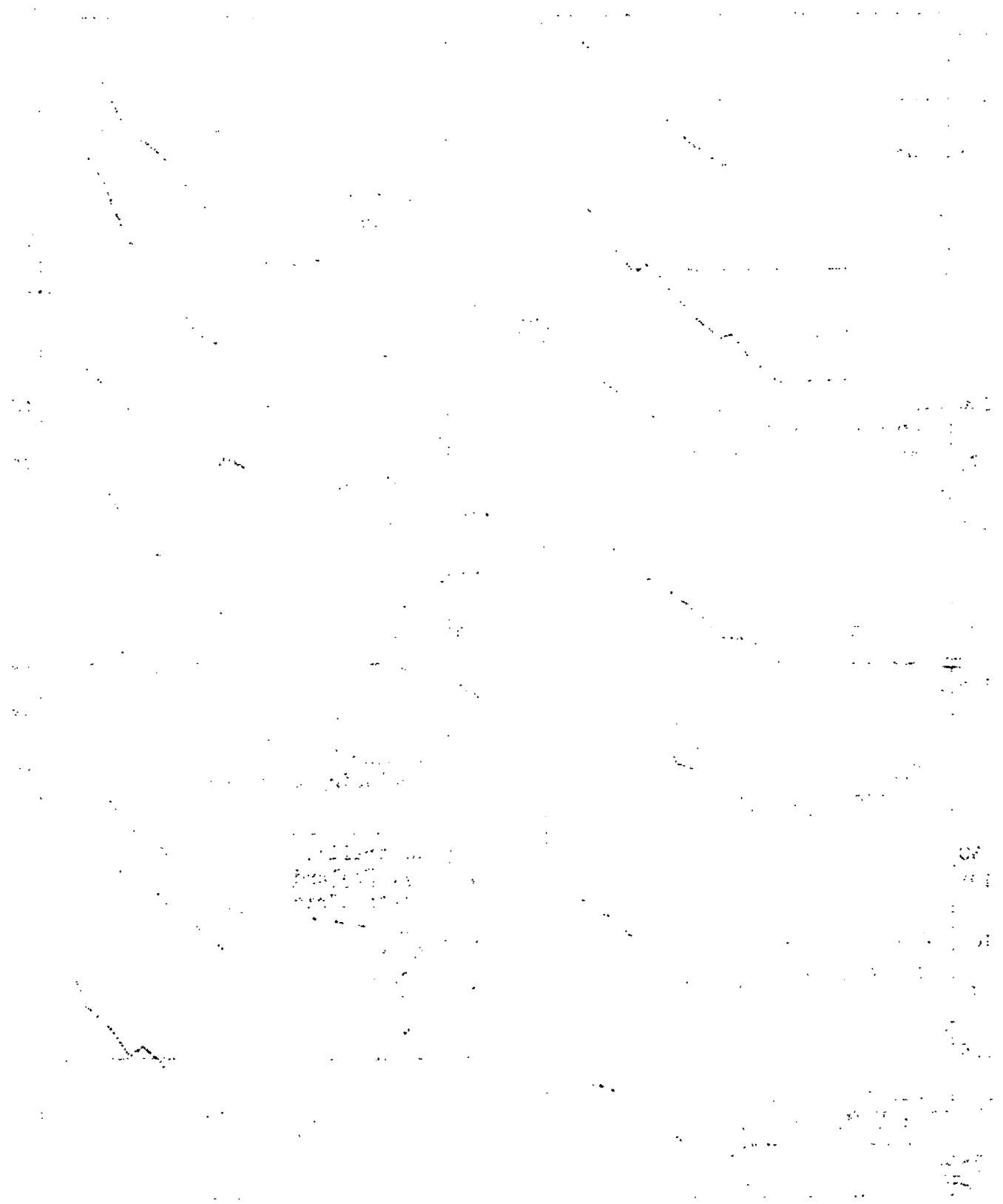


Figure 1. Plot of ϵ versus k for various values of α . The curves are labeled with their corresponding α values: 0.1, 0.2, 0.3, 0.4, 0.5, 0.6, 0.7, 0.8, 0.9, 1.0. The plot shows that ϵ decreases as k increases, and the rate of decrease is affected by the value of α .

3. Inflexibility in the composition of Latin American exports

Latin America as a whole has continued throughout the post-war period to depend on exports of primary commodities in the form of food, raw materials and petroleum, although some of these products have undergone changes as regards the degree of processing they undergo. ^{3/}

The commodities concerned represent over 90 per cent of Latin American exports, and it is only the remaining 10 per cent that consist of more finished products which, moreover, also consist largely of traditional Latin American trade items. New lines that could lead to diversification and a change in the structure of exports have appeared in the last few years, but only on a relatively small scale (see table 6).

As a result of circumstantial factors Latin America entered the world market, during the war and the immediate post-war years, as an exporter of new products, but did not succeed in maintaining the new export lines.

Moreover, as table 7 shows, the bulk of the value of its exports is made up of only a few commodities, since five items - petroleum and petroleum products, coffee, sugar, copper and cotton - account for 62 per cent of the total value of the region's exports.

Some Latin American countries, such as Mexico, Peru and a few Central American countries, succeeded in diversifying their exports and achieving a satisfactory economic growth rate. However, this diversification was generally in branches that were traditional lines for other Latin American countries. ^{4/} In fact, as table 8 shows, it can be asserted that there was some degree of competition between the Latin American countries themselves for a share in supplying world demand.

4. Maintenance of Latin American foreign trade in its traditional market areas

In the pre-war period 30 per cent of Latin American exports were to the United States, 17 per cent to the United Kingdom, 30 per cent to the other countries of western Europe, and less than 2 per cent to Japan. Since 6 per cent was absorbed by the Latin American countries themselves, the share of other areas in the course of development, ^{5/} and of the centrally planned economies, was thus very small.

^{3/} See Methodological Annex for the classification of these commodities.

^{4/} However, Peru and Chile have been able to introduce some new lines in recent years, such as fishmeal, steel and timber products.

^{5/} Chiefly the Netherlands Antilles.

Table 6
STRUCTURE OF LATIN AMERICAN EXPORTS, 1953 AND 1960

Item	1953		1960	
	Millions of dollars fob	Percentage	Millions of dollars fob	Percentage
Total	7 630	100.0	8 610	100.0
1. <u>Food and raw materials</u>	<u>6 980</u>	<u>91.5</u>	<u>7 810</u>	<u>90.7</u>
(a) Food, beverages, tobacco, oil-bearing seeds and oils	4 080	53.5	3 920	45.5
(b) Raw materials	1 100	14.4	1 025	11.9
(c) Metal ores	290	3.8	515	6.0
(d) Fuels	1 510	19.8	2 350	27.3
2. <u>Manufactured products</u>	<u>595</u>	<u>7.8</u>	<u>725</u>	<u>8.4</u>
(a) Capital goods	4	-	21	0.2
(b) Basic metals	390	5.1	490	5.7
(c) Consumer goods	200	2.6	210	2.5
(d) Other manufactures				
3. <u>Residue</u>	<u>55</u>	<u>0.7</u>	<u>75</u>	<u>0.9</u>

Source: GATT, International Trade 1961, Geneva, 1962

/Table 7

Table 7

LATIN AMERICA EVOLUTION OF EXPORTS OF THE PRINCIPAL PRODUCTS, 1950-60

(As percentages of the total value of exports) ^{a/}

Product	1950-51 ^{a/}	1955-56 ^{a/}	1959-60 ^{a/}
Coffee	21.6	22.0	17.4
Sugar	9.6	6.8	8.1
Cotton	6.0	5.0	3.7
Greasy and semi-scoured wool	4.4	2.6	2.2
Wheat	2.9	2.8	1.7
Hides	2.6	1.2	0.9
Bananas	2.0	2.2	1.8
Cacao	1.7	1.6	1.4
Chilled and frozen meat	1.6	1.8	2.2
Linseed oil	1.2	0.3	0.5
Maize	0.6	0.5	1.6
Quebracho	0.5	0.4	0.2
<u>Total, agricultural products ^{d/}</u>	<u>54.7</u>	<u>47.2</u>	<u>41.7</u>
Petroleum and petroleum products	19.6	25.4	27.8
Copper	3.3	5.3	5.0
Lead	1.3	1.2	0.8
Tin	0.9	0.7	0.6
Zinc	0.6	0.6	0.5
Iron ore	0.1	1.4	3.0
<u>Total, mineral products ^{d/}</u>	<u>25.8</u>	<u>34.6</u>	<u>37.7</u>
<u>Total, all products included in table</u>	<u>80.5</u>	<u>81.8</u>	<u>79.4</u>
Other products	19.5	18.2	20.6
<u>Grand total</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>

Source: ECLA, Economic Bulletin for Latin America, Statistical Supplement Nos. VI and VII.

^{a/} Calculations based on dollars at current prices.

^{b/} Products are given in descending order of their share of average Latin American exports for 1950-51.

^{c/} Average.

^{d/} This total covers only the products included in the table.

/Table 8

Table 8

SHARE OF THE LATIN AMERICAN COUNTRIES IN EXPORTS OF THE
MAIN AGRICULTURAL PRODUCTS, 1948-1951 AND 1958-60 ^{a/}

(Percentage of quantum expressed in thousands of tons)

Product and exporting country	Percentage of total		Product and exporting country	Percentage of total	
	1948-51	1958-60		1948-51	1948-60
<u>Bananas</u>			<u>Cotton</u>		
Brazil	13.2	10.3	Brazil	45.9	11.4
Colombia	10.1	8.7	El Salvador	0.9	5.7
Costa Rica	16.4	11.2	Guatemala	-	1.7
Ecuador	13.5	36.2	Mexico	33.7	56.6
Guatemala	14.6	6.4	Nicaragua	0.7	6.9
Honduras	20.4	15.6	Paraguay	2.6	0.8
Panama	11.8	11.6	Peru	16.2	16.9
<u>Total</u>	<u>100.0</u>	<u>100.0</u>	<u>Total</u>	<u>100.0</u>	<u>100.0</u>
<u>Sugar</u>			<u>Wheat</u>		
Brazil	2.1	9.7	Argentina	99.3	95.6
Cuba	86.3	73.1	Uruguay	0.7	4.4
Dominican Republic	6.8	10.8	<u>Total</u>	<u>100.0</u>	<u>100.0</u>
Peru	4.8	6.4			
<u>Total</u>	<u>100.0</u>	<u>100.0</u>			
<u>Coffee</u>			<u>Hides</u>		
Brazil	62.6	53.9	Argentina	60.9	73.9
Colombia	19.1	20.9	Brazil	22.0	11.5
Costa Rica	1.3	2.6	Paraguay	3.7	4.8
Dominican Republic	0.8	1.5	Uruguay	13.4	9.8
Ecuador	1.2	1.6	<u>Total</u>	<u>100.0</u>	<u>100.0</u>
El Salvador	4.2	4.8			
Guatemala	3.3	4.5	<u>Quebracho</u>		
Haiti	1.6	1.4	Argentina	84.3	78.0
Honduras	0.3	0.8	Paraguay	15.7	22.0
Mexico	2.8	4.5	<u>Total</u>	<u>100.0</u>	<u>100.0</u>
Nicaragua	1.1	1.2			
Peru	0.1	1.2	<u>Linseed oil</u>		
Venezuela	1.6	1.7	Argentina	87.8	90.9
<u>Total</u>	<u>100.0</u>	<u>100.0</u>	Uruguay	12.2	9.1
			<u>Total</u>	<u>100.0</u>	<u>100.0</u>
<u>Cacao</u>			<u>Wool</u>		
Brazil	59.7	57.6	Argentina	63.7	73.7
Costa Rica	2.4	5.8	Brazil	1.5	1.7
Dominican Republic	14.8	13.5	Chile	4.0	3.5
Ecuador	13.5	16.3	Peru	0.9	1.4
Venezuela	9.6	6.8	Uruguay	29.9	19.7
<u>Total</u>	<u>100.0</u>	<u>100.0</u>	<u>Total</u>	<u>100.0</u>	<u>100.0</u>
<u>Meat</u>					
Argentina	72.5	82.9			
Brazil	5.3	6.7			
Mexico	5.2	4.1			
Uruguay	17.0	6.3			
<u>Total</u>	<u>100.0</u>	<u>100.0</u>			

Source: ECLA, Economic Bulletin for Latin America, Vols. IV, N° 2, V, VI and VII (Statistical Supplements).

^{a/} Averages.

/During the

During the war the volume of exports decreased considerably and there was a change in the direction of trade. For obvious reasons, the share going to western Europe and Japan shrank and the share of the United States expanded. These changes, which persisted until the early fifties, were on such a scale that in 1952 the United States absorbed about half of all Latin American exports.

Reconstruction in western Europe, and the resulting economic expansion in the fifties, led to an increase in Latin America's exports to that area, and thus Latin American trade has tended in recent years to return to its pre-war pattern (see table 9). The main difference is the larger share of exports to Japan and to the countries with centrally planned economies.

5. Causes of the slow growth of Latin American exports

The external factors that have limited the potential expansion of Latin American exports may be divided into three groups. The first are the basically structural factors relating to the slow growth in the demand for primary commodities compared with the demand for manufactured goods, because of the difference in the income elasticity of demand for the two types of goods and the substitutions and economies in inputs made possible by general and technological advances. In addition there are factors deriving from the policy applied by the industrial countries that are the traditional purchasers of Latin American products, which led to a smaller demand for some items, or to an increase in the production of these items in the importing countries. The factors in the third group relate to the introduction on the world market of competitive goods from other areas in the course of development and from the industrialized countries.

Furthermore, the Latin American countries, in pursuing their domestic policies, failed to establish specific targets for the diversification of exports, and these policies also affected the evolution of exports of the traditional primary commodities.

In order to evaluate Latin America's prospects of improving its present position, and to determine the objectives of its internal and external policy in relation to the evolution of the world economy, it is essential to ascertain the part played by each of the foregoing factors in the structural table of the world economy.

(a) Structural factors of an economic and technological nature

The smaller income elasticity of demand for a large proportion of the primary commodities, especially foods, is often pointed to as explaining the marked differences between the development of trade in primary commodities and in manufactured goods.

In fact, statistical studies show that imports of food and raw materials by the industrialized countries have increased less than their income levels, whereas imports of fuels and manufactured goods has tended to increase more. Table 10 gives the coefficients for imports from countries in the course of development, taken as a group.

Table 9
 LATIN AMERICA: EXPORTS, BY AREA OF DESTINATION, 1938-62
 (Percentage of value) a/

Year	Developed areas b/						Japan	Total	Countries with centrally planned economies c/			Under-developed areas d/			Total f/
	North America		Western Europe						Soviet Union	Eastern Europe	Total	Latin America	Other e/	Total	
	United States	Total	EEC	United Kingdom	EFTA Total	Total									
1938	30.1	31.2	25.4	17.3	20.5	47.4	1.4	80.1	0.1	1.5	1.6	6.1	9.4	15.5	100.0
1948	37.2	39.1	14.4	13.1	16.7	35.3	0.9	75.9	0.2	1.2	1.5	9.2	13.1	22.3	100.0
1950	45.9	47.7	13.2	10.0	14.7	29.9	1.3	79.3	-	0.9	1.0	7.9	10.5	18.4	100.0
1951	44.6	45.9	14.7	10.3	13.7	30.1	2.4	78.9	-	0.5	0.5	8.6	10.3	18.9	100.0
1952	49.7	51.5	13.0	5.5	9.8	24.8	2.2	78.9	-	0.3	0.3	8.6	12.1	20.7	100.0
1953	47.3	49.0	13.8	7.9	11.7	27.1	3.2	79.6	0.1	0.3	0.5	9.5	10.0	19.5	100.0
1954	43.7	45.0	16.1	6.8	10.6	28.9	3.4	77.6	0.8	1.0	2.0	9.0	11.3	20.3	100.0
1955	44.0	45.5	15.6	7.0	10.9	28.7	2.9	77.4	0.9	1.3	2.3	9.6	10.7	20.3	100.0
1956	44.6	46.4	17.2	7.7	11.5	30.8	3.5	81.0	0.3	0.9	1.2	7.7	9.9	17.6	100.0
1957	44.5	46.0	16.9	9.2	12.6	31.7	2.7	80.6	0.7	0.7	1.4	8.8	9.1	17.9	100.0
1958	44.6	46.3	16.1	8.2	11.6	29.6	2.6	79.0	0.6	1.2	2.0	9.3	9.7	19.0	100.0
1959	44.1	46.0	17.2	8.5	11.4	30.3	3.0	79.4	0.5	1.3	1.8	8.6	9.9	18.5	100.0
1960	42.0	43.6	18.4	8.7	11.8	31.7	2.8	78.3	1.3	1.5	3.5	8.0	9.9	17.9	100.0
1961	37.8	39.6	18.6	8.0	11.3	32.0	3.9	76.1	4.0	1.6	6.5	6.6	10.7	17.2	100.0
1962	36.7	38.6	19.7	7.8	11.2	33.3	3.6	76.0	4.1	2.1	7.2	6.7	9.8	16.5	100.0

Sources: United Nations, Yearbook of International Trade Statistics 1959, Vol. I, New York, 1960; Statistical Yearbook 1962, op. cit., and Monthly Bulletin of Statistics, New York, June 1963.

a/ Expressed in terms of dollars at current prices fob.

b/ Includes North America (United States and Canada), Western Europe (member countries of EEC, namely Belgium, Federal Republic of Germany, France, Italy, Luxemburg, Netherlands and the member countries of EFTA (namely Austria, Denmark, Norway, Portugal, Sweden, Switzerland, United Kingdom, and the remaining countries that are European members of the OECD, plus Finland and Yugoslavia), Japan, and also Australia, New Zealand, and South Africa.

c/ Includes the Soviet Union, and the countries of Eastern Europe (except Yugoslavia) and Asia that have centrally planned economies.

d/ Countries not included under b/ or c/.

e/ Aruba and Curacao absorb a very high proportion of these exports.

f/ The over-all total is higher than the sum of the regional totals because it includes exports whose destination is not known.

Table 10
COEFFICIENTS OF INCOME ELASTICITY OF DEMAND OF ITEMS IMPORTED BY THE
INDUSTRIAL COUNTRIES FROM THE DEVELOPING COUNTRIES a/

Group of products	Coefficient of income elasticity of demand
Food (sections 0 and 1 of the SITC)	0.76
Agricultural raw materials and mineral ores (sections 2 and 4 of the SITC)	0.60
Fuels (sections 3 of the SITC)	2.87 ^{b/} (1.40) ^{c/}
Manufactured goods (sections 5 to 8 of the SITC)	1.24

Source: United Nations, World economic survey 1962, Vol. I. The developing countries
in world trade, New York, 1963

a/ These estimates were obtained by comparing the growth of the gross products of the industrial countries with the evolution of the groups of goods imported by these countries from the developing countries during the period 1953-60.

b/ This coefficient, which is based on past experience, to some extent reflects the effect of non-economic factors.

c/ A more realistic coefficient, estimated by the Economic Commission for Europe.

/Broadly speaking

Broadly speaking, it is undoubtedly true that as in the case of Latin America, for a given market the law of demand tends to limit exports of important traditional primary commodities, and this leads to a structural deficit in the balance of payments. However, the slow growth of Latin American exports cannot be attributed wholly to this factor, and a detailed study of the course of developments in the world economy appears to show that this factor has had less influence than others in recent years.

Two other basic factors have played a part in limiting the region's exports, namely, the rapid development of agricultural production in the United States and in western Europe, and the entry into the world market of the United States and other industrialized countries, and of other developing areas, as suppliers of products similar to those traditionally supplied by Latin America.

In addition it should not be overlooked that consumer prices in the importing countries are very different from Latin American export prices, because of the domestic policy applied in Latin America's traditional markets, which has the effect of stimulating domestic production and placing considerable restriction on domestic demand, at least for some products. The same aims are also pursued by other means (see chapter II, section B (2)).

The increase in the demand for imports in other areas of the world, and the resulting expansion of the trade in Latin America's traditional products, might be one means of temporarily circumventing this structural limitation, particularly if such areas as those comprising the centrally planned economies were incorporated in the world trade system, or if world demand were increased through a rise in available income in the underdeveloped countries.

Another structural factor that limits the demand for commodities, especially ores and textile fibres, is technological progress leading to economies in the use of raw materials and of metal scrap, and the replacement of natural raw materials by others, or by products of industrial origin.^{6/}

^{6/} A study carried out in the United States showed that the technical coefficient for the utilization of lead in the motor vehicle industry (whose consumption represents about a third of the total consumption of lead in the United States) had fallen from 7.34 tons per thousand cars produced in 1950 to 4.26 tons in 1960. The consumption of zinc for new building (which absorbs one-fourth of all the zinc used in the United States) during the same period fell from 12.1 tons of zinc per million dollars (at 1947-49 prices) to 6.8 tons (see World economic trends: study of prospective production of and demand for primary commodities, mimeographed, May 1962). In 1959 the use of scrap metal in the United States accounted for about 40 per cent of total consumption, for copper and lead; 34 per cent, for tin; 24 per cent, for zinc, and 15 per cent for aluminium (see World economic trends, op. cit.). Lastly, the proportion of total world consumption of textile fibres accounted for by man-made fibres (synthetic and of chemical origin) rose from 7.5 per cent in the pre-war period to 21 per cent in the three-year period 1957-59 (see FAO, Agricultural commodities - Projections for 1970, Rome, 1962).

The substitutions concerned depend partly on the prices of the primary commodities, and comparison of the f.o.b. and consumer prices for certain items makes it clear that the policy measures adopted in the consumer economies may stimulate this process.

(b) Expansion of exports of commodities from industrialized countries

The industrial countries are increasing their share of the world market for food, raw materials and fuels. The figures in table 11 show that between 1953 and 1960 the value in dollars of Latin American exports increased by only 12 per cent, whereas the value of exports from the industrial areas increased by 50 per cent, since Latin America achieved additional exports to the value of 800 million dollars between 1953 and 1960 while the industrial countries as a whole obtained an increase to the value of 8,000 dollars during the same period.

Table 12 gives figures for the exports of this group of commodities to the industrial countries, by country of origin. 7/

It can be seen that between 1953 and 1960 imports of foods, raw materials and fuels by the industrial countries rose from 28,500 million dollars to 38,800 million dollars, while Latin America's share in these imports rose from 5,500 million dollars to 6,000 million; that is, while imports to the industrial countries increased by 10,000 million dollars, only 500 million dollars of the increase was obtained by Latin America.

Consequently Latin America's share in the external supply of food, raw materials and fuels to the industrial countries fell, in this short period, from 19 to 15 per cent, whereas the industrial countries increased their own share of the supply of these commodities to the same area from 42 to 46 per cent.

As table 12 shows, the value in dollars of Latin American exports to the industrial countries rose by less than 10 per cent between 1953 and 1960, whereas exports of these items from North America and western Europe increased by something like 50 per cent. A similar comparison for other areas is equally unfavourable to Latin America, and attention is drawn in particular to exports from the centrally planned economies, although the base level for those countries was comparatively low.

The slow rate of growth of Latin American exports to the industrial countries is even more clearly demonstrated if the base of comparison taken is the period prior to 1953, since in that year Latin American sales abroad were relatively low, and entered on a period of rapid expansion in volume.

Analysis of the share of the various areas in exports of primary commodities leads to the conclusion that the industrialized countries provide strong competition to the primary producing countries by placing

7/ These figures exclude metal ores that have undergone processing.

Table 11
 VALUE, GEOGRAPHICAL DISTRIBUTION AND GROWTH INDICES OF WORLD EXPORTS a/
 OF PRIMARY COMMODITIES, b/ 1953 AND 1960

Country or area of origin	1953		1960		1960 (1953 = 100)
	Millions of dollars fob	Percent- age c/	Millions of dollars fob	Percent- age c/	
<u>Industrial areas</u>	<u>15 535</u>	<u>42.4</u>	<u>23 200</u>	<u>46.6</u>	<u>149</u>
North America	6 478	17.7	10 094	20.3	156
Western Europe	8 851	24.1	12 667	25.4	143
EEC	4 026	11.0	6 423	12.9	160
EFTA	3 196	8.7	4 097	8.2	128
Other countries d/	1 629	4.4	2 147	4.3	132
Japan	225	0.6	439	0.9	195
<u>Non-industrial areas</u>	<u>21 090</u>	<u>57.6</u>	<u>26 615</u>	<u>53.4</u>	<u>126</u>
Latin America	6 980	19.1	7 810	15.7	112
South-East Asia	4 670	12.7	5 810	11.7	124
Middle East	2 680	7.3	4 825	9.7	180
Australia, New Zealand and South Africa	2 880	7.9	3 230	6.5	112
Other areas	3 880	10.6	4 940	9.9	127
<u>World total a/</u>	<u>36 645</u>	<u>100.0</u>	<u>49 815</u>	<u>100.0</u>	<u>136</u>

Source: GATT, International Trade 1961, Geneva, 1962.

a/ Excluding countries with centrally planned economies, because of the lack of data for 1953.

b/ Includes food, beverages, tobacco, oil-bearing seeds and oils; raw materials of animal and vegetable origin, and metalliferous ores and fuels.

c/ The total does not always coincide with the sum of the individual figures, either because of rounding or because the total includes exports whose destinations is not known.

d/ Finland, Greece, Iceland, Ireland, Spain, Turkey and Yugoslavia.

Table 12
 VALUE, GEOGRAPHICAL DISTRIBUTION AND GROWTH INDICES OF IMPORTS BY
 INDUSTRIAL AREAS OF PRIMARY COMMODITIES, a/ 1953 AND 1960

Country or area of origin of imports	1953		1960		1960 (1953 = 100)
	Millions of dollars fob	Percent-age b/	Millions of dollars fob	Percent-age b/	
<u>Industrial areas</u>	<u>11 890</u>	<u>41.7</u>	<u>17 920</u>	<u>46.2</u>	<u>151</u>
North America	4 890	17.2	7 460	19.2	153
Western Europe	6 885	24.1	10 160	26.2	148
EEC	3 005	10.5	5 105	13.2	170
EFTA	2 515	8.8	3 315	8.5	132
Other countries c/	1 365	4.8	1 740	4.5	127
Japan	115	0.4	300	0.8	261
<u>Non-industrial areas</u>	<u>15 730</u>	<u>55.2</u>	<u>19 015</u>	<u>49.0</u>	<u>121</u>
Latin America	5 535	19.4	6 045	15.6	109
South-East Asia	2 800	9.8	3 255	8.4	116
Middle East	1 860	6.5	3 155	8.1	170
Australia, New Zealand and South Africa	2 450	8.6	2 465	6.3	101
Other areas	3 085	10.8	4 095	10.6	133
<u>Countries with centrally planned economies</u>	<u>870</u>	<u>3.1</u>	<u>1 880</u>	<u>4.8</u>	<u>216</u>
<u>All areas</u>	<u>28 490</u>	<u>100.0</u>	<u>38 815</u>	<u>100.0</u>	<u>136</u>

Source: GATT, International Trade 1961, Geneva, 1962.

a/ Includes food, beverages, tobacco, oil-bearing seeds and oils, raw materials of animal and vegetable origin, and metalliferous ores and fuels.

b/ The total does not always coincide with the sum of the individual figures, either because of rounding or because the total includes exports whose destination is not known.

c/ Finland, Greece, Iceland, Ireland, Spain, Turkey and Yugoslavia.

on the world market virtually the same proportion of similar commodities, although perhaps with some difference in the degree of processing. Thus, in 1960 the industrial countries effected exports of the items concerned for a total of 23,000 million dollars, as against sales of 27,000 million dollars by the non-industrial countries (see again table 11).

Obviously the growing dominance of the industrial countries in exports of commodities cannot be attributed to a loss of competitive capacity on the part of the non-industrial countries, but is due rather to the policy followed by the former as regards subsidies, financing facilities, discriminatory treatment and preference systems; what is more, all these policy measures seem likely to be invoked to an increasing extent, in very important respects, as will be seen in chapter II.

The increase in the production of primary commodities in the industrial countries has also led to a growth of their exports of these products to areas in the course of development. Table 13 shows that total exports of food, raw materials and fuels from industrial areas to non-industrial countries rose from 16,000 million dollars in 1953 to 24,000 million in 1960, whereas Latin American exports to the same area remained at an absolute figure of 1,550 million dollars.

Thus it is understandable that, faced with a given level of demand that increases only slowly because of various structural factors, the process described here has led to pressure on the prices of primary commodities.

A study of the evolution of world exports of primary commodities in relation to the economic and trade policies that the Latin American countries most concerned have followed, or failed to follow, raises the question of how far a different attitude could have changed the course of events, in view of the measures adopted by the United States and the more advanced countries in western Europe.

Table 14 gives the statistics on total imports of manufactured products (capital goods, basic metals, consumer goods and other manufactured goods) by the industrial countries. For manufactured products as a whole,^{8/} Latin American exports to the industrial countries increased from 500 million dollars in 1953 to 650 million dollars in 1960. However, even though the base levels were very low, the percentage increase in supplies to the industrial countries was less than in the supplies to other areas.

Only for metallic ores and fuels was there a more rapid increase in Latin American exports in recent years. Between 1953 and 1960 (see table 15) Latin American fuel exports increased by 56 per cent, and achieved a growth rate slightly higher than the corresponding world rate. Nevertheless, it should be noted that exports from other petroleum producing areas, such as the Middle East, increased far more.

^{8/} The most important item for Latin America in this group is basic metals, which in 1960 represented about 6 per cent of the total value of its exports.

Table 13
 VALUE, GEOGRAPHICAL DISTRIBUTION AND GROWTH INDICES OF IMPORTS OF PRIMARY
 COMMODITIES a/ BY NON-INDUSTRIAL COUNTRIES, 1953 AND 1960

Country or area of origin of imports	1953		1960		1960 (1953 = 100)
	Millions of dollars fob	Percent- age <u>b/</u>	Millions of dollars fob	Percent- age <u>b/</u>	
<u>Industrial areas</u>	<u>15 805</u>	<u>70.5</u>	<u>23 870</u>	<u>72.9</u>	<u>151</u>
North America	5 595	25.0	7 860	24.0	140
Western Europe	9 360	41.7	13 810	42.2	148
EEC	4 445	19.8	7 270	22.2	164
EFTA	4 715	21.0	6 155	18.8	131
Other countries <u>c/</u>	200	0.9	385	1.2	193
Japan	850	3.8	2 195	6.7	258
<u>Non-industrial areas</u>	<u>6 185</u>	<u>27.6</u>	<u>7 615</u>	<u>23.2</u>	<u>123</u>
Latin America	1 520	6.8	1 570	4.8	103
South-East Asia	2 535	11.3	3 000	9.2	118
Middle East	750	3.3	1 360	4.1	181
Australia, New Zealand and South Africa	575	2.6	825	2.5	149
Other areas	805	3.6	860	2.6	107
<u>Countries with centrally planned economies</u>	<u>425</u>	<u>1.9</u>	<u>1 270</u>	<u>3.9</u>	<u>299</u>
<u>Total imports</u>	<u>22 415</u>	<u>100.0</u>	<u>32 750</u>	<u>100.0</u>	<u>146</u>

Source: GATT, International Trade 1961, Geneva, 1962

a/ Includes food, beverages, tobacco, oil-bearing seeds and oils; raw materials of animal and vegetable origin, and metalliferous ores and fuels.

b/ The total does not always coincide with the sum of the individual figures, either because of rounding or because the total includes exports whose destinations is not known.

c/ Finland, Greece, Iceland, Ireland, Spain, Turkey and Yugoslavia.

Table 14

VALUE, GEOGRAPHICAL DISTRIBUTION AND GROWTH INDICES OF IMPORTS OF MANUFACTURED PRODUCTS a/ BY INDUSTRIAL AREAS, 1953 AND 1960

Country or areas of origin of imports	1953		1960		1960 (1953 = 100)
	Millions of dollars <u>fob</u>	Percent- age <u>b/</u>	Millions of dollars <u>fob</u>	Percent- age <u>b/</u>	
<u>Industrial areas</u>	<u>15 815</u>	<u>89.0</u>	<u>33 880</u>	<u>90.5</u>	<u>214</u>
North America	5 085	28.6	8 510	22.7	167
Western Europe	10 480	59.0	23 970	64.1	229
EEC	6 035	34.0	15 635	41.8	259
EFTA	4 185	23.6	7 715	20.6	184
Other countries <u>c/</u>	260	1.4	620	1.7	238
Japan	250	1.4	1 400	3.7	560
<u>Non-industrial areas</u>	<u>1 705</u>	<u>9.6</u>	<u>2 670</u>	<u>7.1</u>	<u>157</u>
Latin America	500	2.8	650	1.7	130
South-East Asia	395	2.2	815	2.2	206
Middle East	50	0.3	145	0.4	290
Australia, New Zealand and South Africa	230	1.3	285	0.8	124
Other areas	530	3.0	775	2.1	146
<u>Countries with centrally planned economies</u>	<u>250</u>	<u>1.4</u>	<u>875</u>	<u>2.3</u>	<u>350</u>
<u>All areas</u>	<u>17 770</u>	<u>100.0</u>	<u>37 425</u>	<u>100.0</u>	<u>211</u>

Source: GATT, International Trade 1961, Geneva, 1962.

a/ Includes capital goods, basic metals, consumer goods and other manufactured goods.

b/ The total does not always coincide with the sum of the individual figures, either because of rounding or because the total includes exports whose destinations is not known.

c/ Finland, Greece, Iceland, Ireland, Spain, Turkey and Yugoslavia.

Table 15

VALUE, GEOGRAPHICAL DISTRIBUTION AND GROWTH INDICES OF WORLD FUEL EXPORTS, a/ 1953 AND 1960

Country or area of origin	1953		1960		1960 (1953 = 100)
	Millions of dollars fob	Percentage b/	Millions of dollars fob	Percentage b/	
<u>Industrial areas</u>	<u>2 664</u>	<u>36.1</u>	<u>3 284</u>	<u>29.9</u>	<u>123</u>
North America	856	11.6	981	8.9	115
Western Europe	1 799	24.4	2 286	20.8	127
EEC	1 314	17.8	1 796	16.3	137
EFTA	426	5.8	428	3.9	100
Other countries c/	59	0.8	62	0.6	105
Japan	9	0.1	17	0.2	189
<u>Non-industrial areas</u>	<u>4 725</u>	<u>63.9</u>	<u>7 720</u>	<u>70.1</u>	<u>163</u>
Latin America	1 510	20.4	2 350	21.4	156
South-East Asia	545	7.4	550	5.0	101
Middle East	1 820	24.6	3 640	39.0	200
Australia, New Zealand and South Africa	20	0.3	80	0.7	400
Other areas	830	11.2	1 100	10.0	133
<u>All areas a/</u>	<u>7 389</u>	<u>100.0</u>	<u>11 005</u>	<u>100.0</u>	<u>149</u>

Source: GATT, International Trade 1961, Geneva, 1962

a/ Excluding the countries with centrally planned economies, because of the lack of data for 1953.

b/ The total does not always coincide with the sum of the individual figures, either because of rounding or because the total includes exports whose destination is not known.

c/ Finland, Greece, Iceland, Ireland, Spain, Turkey and Yugoslavia.

/For metallic

For metallic ores (see table 16) the dollar value of world exports (not including exports from the centrally planned economies) increased by 87 per cent in 1953-60. While Latin America's exports exceeded the 1953 figure by 80 per cent, it barely maintained its position on world market since its share dropped from 16.3 per cent to 15.5 per cent during the same period.

(c) Entry of other developing areas into the world commodity market

Other developing areas have entered the world commodity market during the post-war period, especially as exporters of petroleum, mineral ores and tropical agricultural products. This constitutes another factor limiting the potential expansion of Latin American exports.

Although the rise of new exporters is, of course, due to certain favourable natural conditions, a major part has also been played by the policy of tariff preferences pursued by the industrial economies and by international decisions as regards the distribution of investment between the various parts of the world.

Table 17 shows that in 1953-60 Latin American exports of most of the major groups of commodities did not expand at the same rate as those of the non-industrial areas or the centrally planned economies. Only exports of fuels and metallic ores increased at a faster rate in Latin America than in other regions.

(d) Increase in agricultural production in the industrial countries

The expansion of agricultural production in the United States and western Europe, in addition to affecting the world market, has enabled the countries concerned to meet more of their own requirements, thus adding another limiting factor to the potential expansion of the demand for Latin American products.

Table 18 gives the total and per capita indices for agricultural and food production in the various regions of the world. Present per capita production of food in North America and western Europe is 16 and 21 per cent higher, respectively, than in the pre-war period, whereas for Latin America the present levels are below those for the pre-war years.

These increases represent large exportable surpluses (especially in the United States), in view of the absolute levels of production and the relatively high income in these areas. Moreover in all these countries, and especially in western Europe, production continues to increase, because of the policy aimed at achieving self-sufficiency in certain items that were traditionally imported; what is worse, these items will affect not only the domestic markets, but also the broader European Common Market. In these circumstances there seems little prospect of any increase in Latin American exports to Europe of temperate products (or even of some tropical products, such as sugar).

Table 16

VALUE, GEOGRAPHICAL DISTRIBUTION AND GROWTH INDICES OF WORLD EXPORTS ^{a/}
OF METALLIFEROUS ORES, 1953 AND 1960

Country or area of origin	1953		1960		1960 (1953 = 100)
	Millions of dollars fob	Percent- age ^{b/}	Millions of dollars fob	Percent- age ^{b/}	
<u>Industrial areas</u>	<u>832</u>	<u>46.8</u>	<u>1 847</u>	<u>55.6</u>	<u>222</u>
North America	346	19.5	1 165	35.1	337
Western Europe	486	27.3	682	20.5	140
EEC	140	7.9	324	9.7	231
EFTA	236	13.3	268	8.1	114
Other countries ^{c/}	110	6.2	90	2.7	82
Japan	-	-	-	-	-
<u>Non-industrial areas</u>	<u>945</u>	<u>53.2</u>	<u>1 475</u>	<u>44.4</u>	<u>156</u>
Latin America	290	16.3	515	15.5	178
South-East Asia	265	14.9	300	9.0	113
Middle East	18	1.0	24	0.7	133
Australia, New Zealand and South Africa	60	3.4	285	8.6	475
Other areas	310	17.4	350	10.6	113
<u>All areas ^{a/}</u>	<u>1 777</u>	<u>100.0</u>	<u>3 322</u>	<u>100.0</u>	<u>187</u>

Source: GATT, International Trade 1961, Geneva, 1962.

^{a/} Excludes the countries with centrally planned economies because of the lack of data for 1953.

^{b/} The total does not always coincide with the sum of the individual figures, either because of rounding or because the total includes exports whose destination is not known.

^{c/} Finland, Greece, Iceland, Ireland, Spain, Turkey and Yugoslavia.

Table 17

GROWTH INDICES OF WORLD EXPORTS, BY GROUPS OF PRODUCTS AND
BY AREA, 1960

(1953 = 100)

Group of products	World	Industrial areas	Non-industrial areas	Latin America	Countries with centrally planned economies
<u>Total exports</u>	<u>162</u>	<u>176</u>	<u>128</u>	<u>113</u>	<u>190</u>
1. <u>Food and raw materials</u>	...	<u>149</u>	<u>126</u>	<u>112</u>	...
(a) Food, beverages, tobacco, etc.	...	144	110	96	...
(b) Raw materials	...	161	119	93	...
(c) Metalliferous ores	...	222	156	178	...
(d) Fuels	...	123	163	156	...
2. <u>Manufactured products</u>	...	<u>193</u>	<u>141</u>	<u>122</u>	...
(a) Capital goods	...	196	164	...	...
(b) Basic metals	...	206	129	126	...
(c) Consumer goods and other manufactured goods	...	187	147	105	...
3. <u>Residue</u>	...	<u>108</u>	<u>119</u>	<u>136</u>	...

Source: GATT, International Trade 1961, Geneva, 1962.

Table 18

WORLD ^{a/} AND REGIONAL GROWTH INDICES OF TOTAL AND PER CAPITA
AGRICULTURAL AND FOOD PRODUCTION

(Pre-war average = 100) ^{b/}

	Total agricultural production		Total food production ^{g/}		Per capita agricultural production		Per capita food production	
	A	B	A	B	A	B	A	B
Africa	128	162	124	151	102	105	101	99
Eastern Europe and Soviet Union	105	102	104	163	108	145	108	146
Far East ^{a/}	104	140	106	145	85	95	88	99
Latin America	122	167	126	169	90	97	94	99
Middle East	117	169	117	166	98	112	98	111
North America	137	159	141	167	114	110	116	116
Oceania	115	155	114	144	96	102	94	94
Western Europe	105	143	105	143	96	119	96	120
<u>All areas</u>	<u>114</u>	<u>153</u>	<u>116</u>	<u>155</u>	<u>100</u>	<u>111</u>	<u>100</u>	<u>113</u>

Source: FAO, The state of food and agriculture, 1962, Rome, 1962.

A = 1948/49 - 1952/53

B = 1950/60 - 1961/62

^{a/} Excludes mainland China.

^{b/} In the FAO document the average for the period 1952/53 - 1956/57 was taken as the base.

^{g/} Excluding coffee, tea, tobacco, inedible oil-bearing seeds, animal and vegetable fibres and rubber.

6. Synthesis of the evolution of primary commodity exports from Latin America and other areas

As seen from the figures in table 17, Latin America's share of the world trade in most of its traditional export items has been steadily declining. A commodity by commodity breakdown of this trend shows that, in fact, the area's share of world trade has been maintained or has increased in only a small group of its major export items.

Figure II and table 19 indicate the share of Latin American exports in world trade (measured by physical volume) for the principal commodities. A comparison of the figures since 1934-38, already a period of relative depression for Latin America, shows that sugar, bananas, tobacco, cotton, agaves (henequen, sisal, etc.) and zinc ore are the only products in which Latin America has maintained or been able to increase its share of the world market, although for some of them its share has dropped in the past few years.

In so far as the value of agricultural exports as a whole is concerned, a striking indication of the changes which have taken place with respect to the pre-war period and over the past ten years is provided in table 20. North America and Africa have registered the sharpest increases, if the pre-war period is taken as the base index. In the case of North America, the greater relative increase in its exports is due to two factors: domestic price policy and the special financing facilities offered by the United States. Africa's very much improved sales position may be attributed largely to the policy of promotion and protection applied by some countries in favour of their overseas associates.

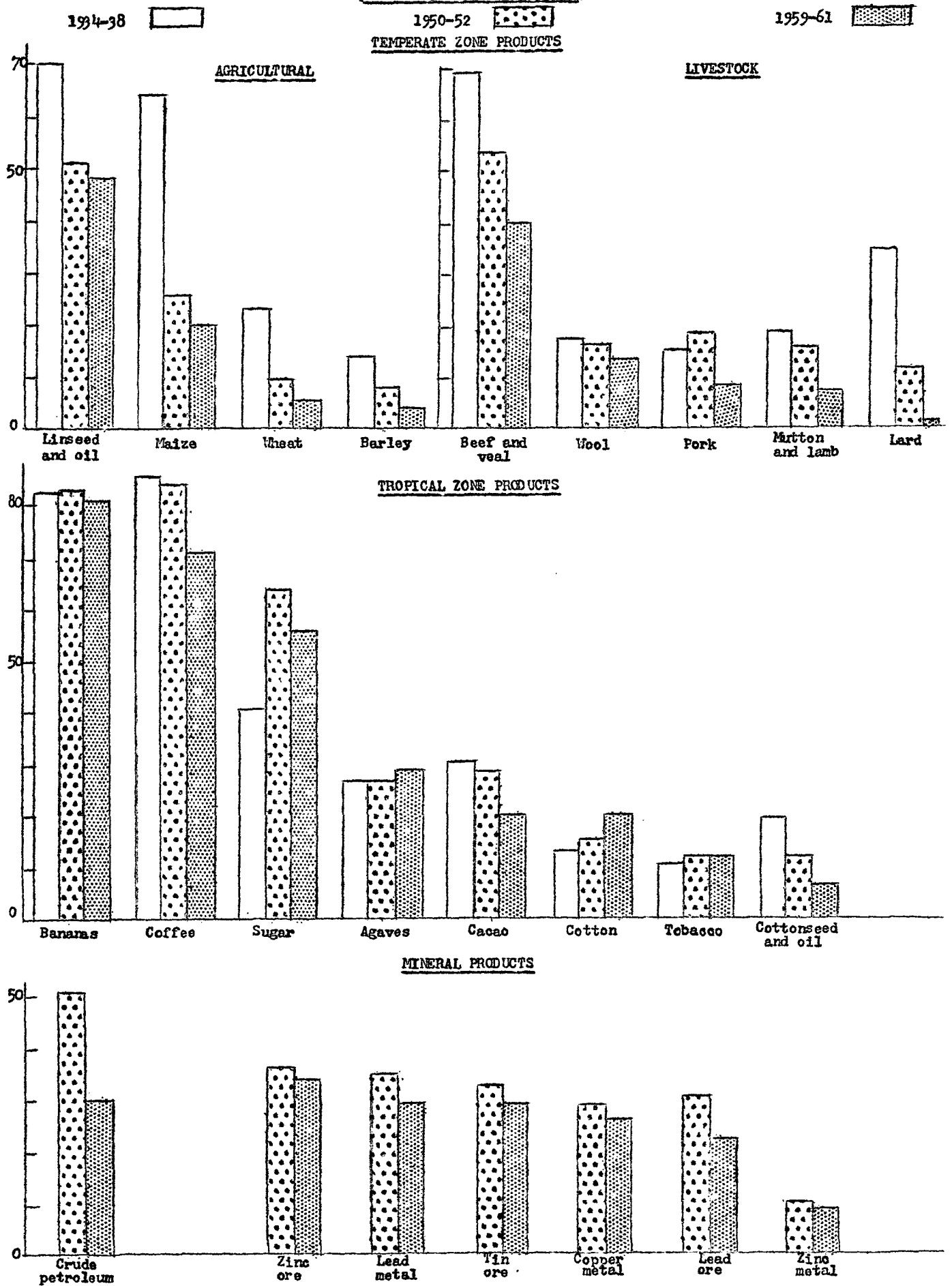
7. Difficulties hampering primary commodity trade in non-traditional areas

Expansion of Latin America's trade with other areas has met with certain difficulties. The countries with centrally planned economies have hitherto tended to follow a policy of self-sufficiency, particularly in respect of agricultural production, or have established severe restrictions on imports of other primary commodities.

Moreover, because of the different economic systems involved special institutional arrangements have to be made to enable bilateral agreements to operate, and this is the practice followed by the above-mentioned countries. Added to this are the difficulties inherent in any initiation of trade relations, above all in respect of items such as capital goods for which some kind of permanent organization is needed for parts replacement and maintenance. The fact that balances of agreements are not transferable even among countries with centrally planned economies is yet another related factor limiting the possibilities of trade with that area. Were such conditions to change, the effect that the additional demand from countries with centrally planned economies might have on the international situation of primary commodities would be worth considering.

/Figure II

Figure II
LATIN AMERICA'S SHARE IN WORLD EXPORTS OF PRIMARY COMMODITIES
(Percentage of world volume)



Source: United Nations, Commodity Survey 1962, New York, 1963.

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Table 19
LATIN AMERICA'S SHARE IN WORLD EXPORTS OF PRIMARY COMMODITIES,
1934-38, 1950-52 and 1959-61

(As percentages of world volume) a/

Commodity	1934-38	1950-52	1959-61
Wheat	24	10	6
Barley	14	8	4
Maize	65	26	20
Sugar	41	64	56
Beef and veal <u>b/</u>	69	53	40
Mutton and lamb <u>b/</u>	19	16	8
Pork <u>b/</u>	16	19	9
Bananas	83	84	82 <u>c/</u>
Coffee	86	84	72 <u>c/</u>
Cacao	31	29	21
Tobacco	11	12	12
Lard	35	12	1
Cottonseed and oil <u>d/</u>	19	12	6
Linseed and oil <u>d/</u>	71	52	49
Cotton	13	15	20
Wool	18	17	14
Agaves <u>e/</u>	27	27	29
Crude petroleum	...	51	30
Copper metal	...	29	26
Lead ore <u>f/</u>	...	31	22
Lead metal	...	35	29
Tin ore <u>f/</u>	...	33	29
Zinc ore <u>f/</u>	...	36	34
Zinc metal	...	10	9

Source: United Nations, Commodity Survey 1962, New York, 1963.

a/ In metric tons.

b/ The total does not include exports from countries with centrally planned economies.

c/ 1959-60.

d/ Measured in oil equivalent.

e/ Henequen, sisal, etc.

f/ Gross weight.

Table 20

INDICES OF THE VALUE IN DOLLARS OF WORLD AGRICULTURAL
EXPORTS, BY AREA, 1959-61

Areas	1959 - 1961	
	1934-38=100 a/	1948-52=100 b/
Africa	500	134
North America	501	118
North America b/	354	83
Latin America	370	105
Middle East	350	108
Far East c/	231	107
Western Europe	346	171
Oceania	373	114
<u>World total d/</u>	365	120

Source: FAO, The state of food and agriculture, 1962, Rome, 1962.

a/ In the FAO document 1952-53 was taken as the base.

b/ Excluding exports effected on special terms from 1955 onwards.

c/ Excluding mainland China.

d/ Excluding mainland China, Eastern Europe and the Soviet Union.

/As regards

As regards other developing areas, the expansion of trade in primary commodities, has been limited in many cases by the fact that there is a competitive market in the commodities concerned and, in others, by the national protection which is traditional in this field. The weakness of demand due to low income levels is another factor.

8. Lack of a policy of diversification of exports in the Latin American countries

The results which the Latin American countries will have achieved in the post-war period had they adopted a vigorous policy of diversification of exports, and thus offset the slow growth rate of the primary commodity trade by introducing new exports items, especially of manufactured goods, into the market, cannot be estimated very easily.

In any case, it is recognized that not enough has been done in this direction and that Latin America will inevitably have to take part in the trade in manufactured goods.

9. Slow development of intra-Latin American trade

Trade among the Latin American countries is negligible both in absolute terms and compared with the region's total purchases and sales. In fact, intra-area trade is much greater in other regions, particularly among the EEC countries. In fact, Africa is the only region where intra-area trade is virtually at the same relative level as in Latin America. This is shown in table 21 which gives the percentage of exports of each region represented by intra-area sales. The figures show that within the relatively low level of Latin America's intra-regional trade, there have been substantial changes in the degree to which it has met its own requirements. Thus, before the war intra-regional trade represented about 8 per cent of Latin America's total sales, a figure which rose to nearly 10 per cent in 1953 and 1955 and then gradually declined to 6.5 per cent in 1961-62.

Viewed from the standpoint of imports, Latin America, like the other developing areas, has been buying relatively less from countries within the area, an additional factor responsible for the low level of self-supply (see table 22).

Nevertheless, the results being obtained in Central America ^{9/} and the ALALC area indicate that prospects for developing Latin American trade are very favourable.

^{9/} While Latin America's total exports increased by 6 per cent between 1957 and 1962, those within the Central American common market area more than tripled during the same period. As for the ALALC countries, the increase in their intra-area sales from 1961 to 1962 was three times higher than the increase in the total exports of Latin America as a whole.

Table 21

INTRA-REGIONAL EXPORTS, 1938-62

(As percentage of the value of each area's total exports)

Year	Developed areas				Under-developed areas					Countries with centrally planned economies d/
	Western Europe			Total a/	Africa b/	Latin America	Middle East	Asia c/	Total	
	EEC	EFTA	Total							
1938	27.5	18.4	55.4	68.5	5.9	6.1	14.0	25.8	21.7	11.0
1948	26.2	17.4	47.8	64.3	9.2	9.2	17.9	34.4	29.1	43.8
1952	26.7	18.3	52.3	63.5	8.8	8.6	12.8	26.2	26.1	74.4
1953	28.5	19.0	52.0	63.0	9.2	9.5	12.5	23.7	24.3	77.7
1954	29.5	19.1	53.2	64.2	9.6	9.0	13.2	23.7	24.3	77.8
1955	30.8	18.6	54.6	67.3	9.9	9.6	13.2	23.1	24.3	73.7
1956	32.0	17.9	54.4	66.8	10.0	7.7	13.5	21.1	23.2	70.6
1957	31.9	18.1	54.1	66.0	9.7	8.8	12.8	23.2	24.2	71.3
1958	30.1	17.7	53.0	65.3	9.2	9.3	10.4	22.3	22.9	70.8
1959	32.4	18.0	54.1	68.2	10.2	8.6	11.2	22.3	22.3	73.9
1960	34.5	19.0	56.9	69.2	10.0	8.0	10.7	23.0	21.2	72.1
1961	36.8	19.8	59.9	70.1	8.1	6.6	10.7	20.5	22.0	68.5
1962	39.6	21.9	62.2	71.0	8.0	6.7	10.2	20.3	21.6	67.7

Source: United Nations, Statistical Yearbook 1962, New York 1963, and Monthly Bulletin of Statistics, New York, June 1963.

Note: In the source the data are expressed in terms of fob values in dollars at current prices.

a/ Including, as well as western Europe, the United States and Canada; Australia, New Zealand and South Africa; and Japan.

b/ Mainland Africa.

c/ Sterling area only.

d/ Excluding Yugoslavia, and trade between mainland China, North Korea, Mongolia and North Viet-Nam.

Table 22

INTRA-REGIONAL IMPORTS, 1938-62

(As percentage of the value of each area's total imports a/)

Year	Developed areas	Under-developed areas		Countries with centrally planned economies b/
		Latin America	Others	
1938	63.5	7.6	26.0	15.5
1948	64.2	10.8	29.5	45.2
1952	67.4	9.4	25.1	80.5
1953	66.8	12.1	23.6	82.8
1954	66.9	10.4	23.4	80.4
1955	68.1	11.1	23.5	78.5
1956	69.1	9.0	22.0	76.0
1957	70.6	8.7	21.6	74.2
1958	69.6	9.3	20.3	73.3
1959	70.6	9.5	20.9	75.7
1960	72.2	8.7	20.1	72.2
1961	73.4	7.1	19.8	69.7
1962	73.7	7.7	20.2	69.8

Sources: United Nations, Statistical Yearbook 1962, New York, 1963, and Monthly Bulletin of Statistics, New York, June 1963.

a/ Sales within each area expressed as a percentage of the total exports to that area (fob values in dollars at current prices).

b/ Except for trade between mainland China, North Korea, Mongolia and North Viet-Nam.

10. An illustrative estimate of the extent of Latin America's displacement in world trade

Merely by way of illustration some comparisons can be made to show the extent to which Latin America has been displaced in world trade. Thus, for example, Latin America's supplies of primary commodities (excluding fuels) to the industrialized countries shrank from 20.2 per cent in 1953 to 15.1 per cent in 1960. If Latin America had maintained its 1953 level in 1960, it would have earned over 1,500 million dollars more from its exports than it actually obtained. It should be pointed out that this calculation does not allow for losses due to price reductions, and also that if periods prior to 1953 are considered the displacement would be even greater, since by that year Latin American exports were already at a relatively low level.

A similar estimate, also by way of illustration, is based on a specific analysis of the development of Latin America's share of world trade in some of its major export items: coffee, cacao, maize, wheat, beef, barley and linseed oil. Latin America's competitive position in respect of all these commodities has been very favourable, yet the combined effect of the various factors mentioned has been to reduce its share of the world trade in these items. The drop has been so sharp that in the period 1953-61 for temperate commodities and 1953-62 for tropical commodities Latin America would, it is estimated, have obtained 8,800 million dollars more, at the prices prevailing in those years, had its exports of those items maintained their 1934-38 share of world trade in these commodities (see chapter II (F)).

B. GROWTH STRUCTURE, POLICY AND LIMITATIONS OF
LATIN AMERICAN DEVELOPMENT VIS-A-VIS THE
EVOLUTION OF THE EXTERNAL SECTOR

1. Types of economic growth in Latin America

A broad analysis shows that the Latin American countries experienced three types of economic growth during the past thirty years. The first, a relatively outward-directed growth process, was observed in the Central American countries, Peru and Ecuador. The second, based on an intensive process of import substitution, was the type in Argentina, Brazil, Chile and Mexico. The third type of economic growth represents a middle course between the two others and is found in Colombia (lately the Venezuelan economy has begun to follow this pattern).

As is only natural, no clear-cut limits can be established for classifying countries in the third group. Thus, while Chile has increased its import coefficient in the last few years, due to significant aspects of its structure of production, its place is really among the countries that have gone ahead with import substitution. On the other hand, while Venezuela's import coefficient has contracted sharply, it still remains comparatively high and its exports are expanding at one of the fastest rates in Latin America. Thus, Latin America's economic development has clearly taken different forms and has been affected by factors which, in some cases, define growth stages.

For purposes of the analysis which forms the subject of this paper - even at the risk of over-simplification - the Latin American economies may be classified according to four characteristic indices: level of per capita income, size and evolution of the import coefficient in relation to the growth rate of the product, and size of the market or total income. Consequently, another index relating to the growth rate of external purchasing power derived from exports and inflows of capital is implicit in the above-mentioned factors (see table 23).

Up to a few years ago, most of the countries with the highest import coefficients experienced relatively high rates of growth of the domestic product, with imports approaching and at times even exceeding that rate. These are mainly the tropical countries, at intermediate and low levels of per capita income. A relatively high export growth rate, together with some diversification of exports, although in primary products which are already traditional items of Latin American exports, complete the picture as to the characteristics of the first group of countries.

The countries which now have a low import coefficient tend to occupy a higher place in the scale of average per capita income or total income per country. These countries underwent a more intensive process of industrialization during the post-war period. Some, like Brazil and Mexico, achieved a comparatively high rate of growth, while in others, particularly Argentina and Chile, grew at a much slower pace.

/Table 23

Table 23

GROWTH RATE OF GROSS PRODUCT, IMPORTS AND PURCHASING POWER OF EXPORTS,
AND IMPORT COEFFICIENTS, 1949-51 TO 1959-61

Country	Annual cumulative rates for the period 1949-51 to 1959-61			Cif imports as percentage of gross product	
	Gross product	Imports of goods	Purchasing power of exports	1949-51	1959-61
Colombia	4.6	2.7	1.6	9.2	7.6
Argentina	1.6	1.0	-0.1	9.0	8.3
Brazil	5.8	1.4	0.2	13.2	8.4
Haiti	1.6	-2.1	-1.4	12.7	9.7
Mexico	5.5	3.1	4.0	14.8	11.1
Uruguay	2.1	0.4	-2.0	13.9	11.7
Paraguay	0.8	2.7	0.4	13.0	12.9
Chile	3.3	3.9	2.5	13.5	14.1
Ecuador	5.2	7.0	7.8	12.1	14.1
Bolivia	0.3	0.7	-3.0	13.7	14.2
Dominican Republic	4.3	4.4	1.5	10.1	14.5
Peru	4.8	5.2	5.8	17.1	17.4
Venezuela	7.3	2.8	5.1	26.4	17.5
Guatemala	4.7	6.3	4.6	14.8	17.6
Honduras	3.7	4.6	-0.1	16.7	18.2
Nicaragua	5.8	10.2	7.5	17.0	23.0
Panama	5.2	5.9	8.0	22.5	23.6
Cuba	...	2.8 a/	...	25.9	...
El Salvador	4.3	7.6	4.8	19.3	28.8
Costa Rica	4.8	7.6	3.9	21.1	28.9
Latin America	4.4	...	...	13.7	...
Latin America: excluding Cuba	4.4	2.6	2.4	13.3	11.2
Latin America excluding Cuba and Venezuela	4.1	2.5	1.7	12.3	10.4

a/ Figure for 1949-51 to 1959-60.

/In this

In this second group of countries, except for Mexico, exports expanded very slowly and for long periods remained at a standstill; conversely, their purchasing power fluctuated sharply as a result of changes in the terms of trade.

Although under different conditions, Colombia and Venezuela are embarked on a process similar to that undertaken sometime ago by the countries of the second group. In fact Colombia, with a relatively low per capita income, attained import coefficients ranging from 12 to 15 per cent in the early fifties and has been reducing them by means of an intensive import substitution process and strong restrictive measures made necessary by its balance of payments situation. The drop in Venezuela's import coefficient in the last few years is even more marked.

Special conditions affect the position of Bolivia and Paraguay, although in both cases external purchasing power is either at a standstill or rising very slowly, and this in turn is largely responsible for the very low rate of growth of their domestic product.

Broadly speaking, and simplifying the analysis in order to emphasize the points with which this paper is particularly concerned, it can be said that exports, as measured in terms of their purchasing power, constitute the dynamic factor of economic growth in the first group of countries. In the second group, on the other hand, the factor of growth tended to become the internal process of industrialization and import substitution. However, insufficient external purchasing power obviously limits the economic growth rate of some countries in this group and makes it difficult for them to proceed with import substitution.

2. Structure of imports, income level and import substitution

Economic growth, industrialization and the resulting import produced a change in the composition of imports (see table 24). In Latin America, import substitution begins with consumer goods and some relatively simple intermediate products moving on to intermediate products requiring substantial investment and to some types of durable consumer and capital goods. The demand for fuel imports, other intermediate products and other capital goods increases correspondingly.

This process produces a change in the relative composition of imports. The percentage of imports of consumer goods drops while that of fuels, intermediate goods and capital goods increases (see figure III). These structural changes are shown by a study of the past pattern in the countries that have gone ahead with import substitution, such as Argentina, Brazil, Chile and Mexico, and emerge even more clearly from a comparison with the existing composition of imports in each Latin American country (see tables 24 and 25).

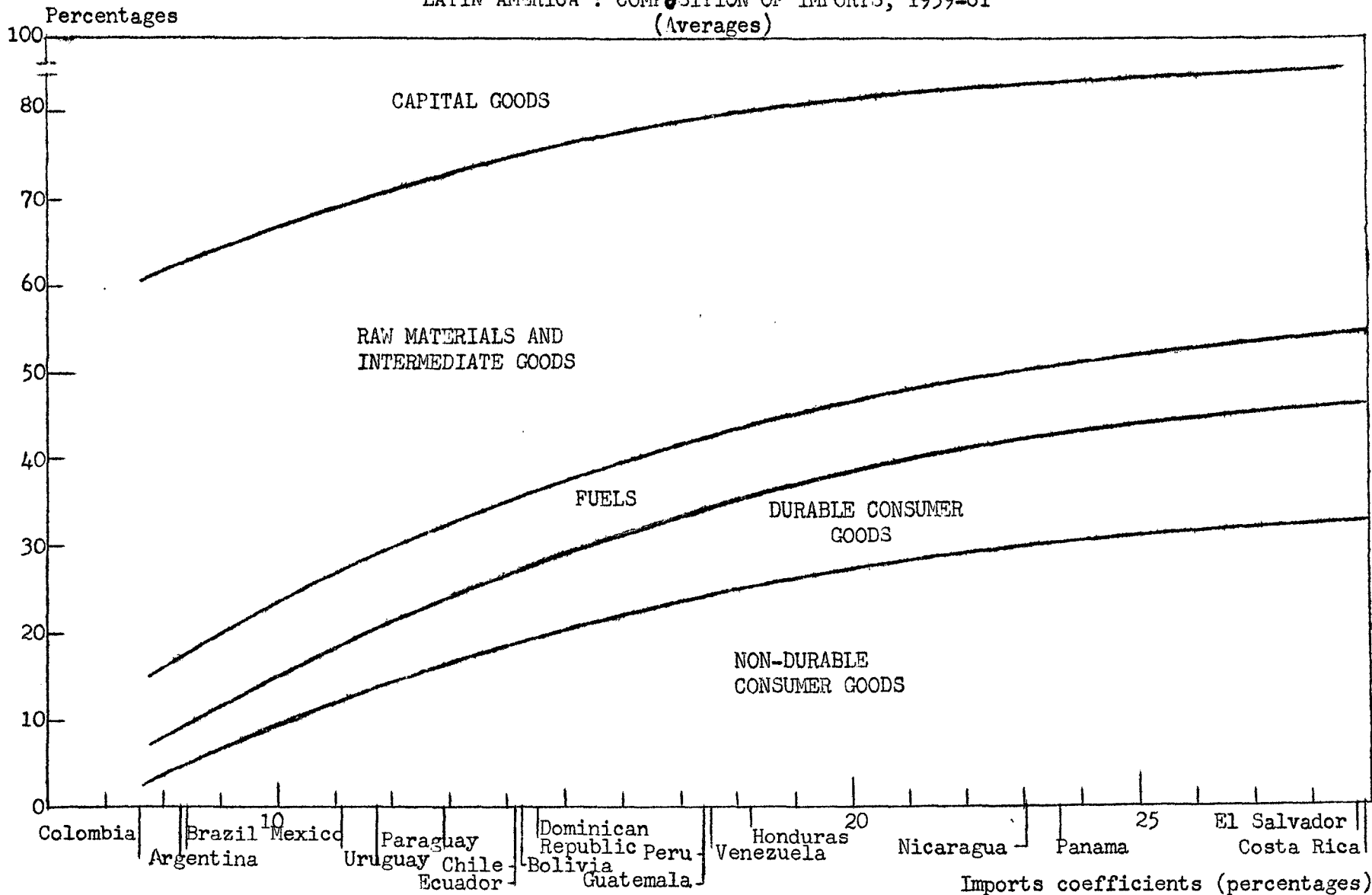
Table 24

PERCENTAGE COMPOSITION OF IMPORTS BY COUNTRY, AVERAGE FOR 1949-1951

(Percentage of total imports for each country)

Country	Consumer goods			Fuels	Raw materials and intermediate products	Capital goods
	Total	Non-durable	Durable			
Argentina	7.2	3.7	3.5	14.3	53.8	24.7
Bolivia	26.2	18.8	7.4	5.7	37.5	30.6
Brazil	13.1	5.2	7.9	11.6	31.0	44.3
Colombia	19.2	12.2	7.0	3.3	37.4	40.1
Costa Rica	39.8	33.1	6.7	5.3	38.8	16.1
Chile	11.1	7.7	3.4	10.9	38.0	40.0
Dominican Republic	36.8	28.4	8.4	8.7	37.9	19.6
Ecuador	40.2	26.5	13.7	2.6	27.7	29.5
El Salvador	43.7	31.0	12.7	5.7	26.1	24.5
Guatemala	40.7	31.0	9.7	8.3	33.4	17.6
Haiti	63.8	55.2	8.6	3.8	20.1	12.3
Honduras	40.9	30.1	10.8	10.6	29.2	19.3
Mexico	15.3	7.9	7.4	4.0	44.7	36.0
Nicaragua	39.8	25.6	14.2	8.7	30.4	21.1
Panama	55.8	45.5	10.3	7.1	24.7	12.4
Paraguay	33.4	27.5	5.9	4.1	39.8	22.7
Peru	24.4	19.2	5.2	1.8	30.3	43.5
Uruguay	19.3	13.0	6.3	9.0	44.1	27.6
Venezuela	29.9	23.8	6.1	1.2	23.7	45.2

Figure 11f
 LATIN AMERICA : COMPOSITION OF IMPORTS, 1959-61
 (Averages)



Note : This figure is presented strictly for the purpose of illustrating the basic changes in the composition of imports of the Latin American countries. The curves therefore represent only trends or general averages; the specific data on the composition of imports for each country are given in tables 24 and 25.

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Table 25

PERCENTAGE COMPOSITION OF IMPORTS BY COUNTRY, AVERAGE FOR 1959-1961

(Percentages of total imports for each country)

Country	Consumer goods ^{a/}			Fuels	Raw materials and intermediate products	Capital goods
	Total	Non-durable	Durable			
Argentina	8.9	3.5	5.4	14.7	46.2	30.2
Bolivia	32.5	22.1	10.4	3.6	33.4	30.5
Brazil	5.5	4.1	1.4	18.0	37.1	39.4
Colombia	11.1	6.8	4.3	1.8	47.0	40.1
Costa Rica	35.3	25.8	9.5	4.7	38.5	21.5
Chile	15.3	11.3	4.0	10.2	37.0	37.5
Dominican Republic	35.7	20.2	15.5	8.3	28.2	27.8
Ecuador	39.5	28.2	11.3	3.9	29.8	26.8
El Salvador	40.5	29.0	11.5	6.3	37.7	15.5
Guatemala	33.7	24.0	9.7	9.3	34.8	22.0
Haiti	62.8	56.0	6.8	4.7	24.6	7.9
Honduras	40.1	29.7	10.4	8.2	30.8	20.9
Mexico	12.9	7.0	5.9	4.3	45.4	37.4
Nicaragua	37.3	27.3	10.0	9.0	32.3	21.4
Panama	52.3	37.4	14.9	9.7	23.1	14.9
Paraguay	41.9	27.4	14.5	3.8	33.2	21.1
Peru	24.5	17.9	6.6	3.8	35.8	35.9
Uruguay	13.1	9.1	4.1	23.0	42.8	21.1
Venezuela	35.4	25.7	9.7	0.7	31.2	32.7

^{a/} For Bolivia, Colombia, the Central American countries, Haiti and the Dominican Republic the average is for 1959-60.

Figure III shows that, as a rule, countries with a high import coefficient devote at least 40 per cent of the total value of their purchases abroad to consumer goods, less than 10 per cent to fuels, some 30 per cent to intermediate goods and the remaining 20 per cent to capital goods. By contrast, countries with low import coefficients devote a much lower share to consumer goods; these countries spend 35 per cent on capital goods and 40 per cent on intermediate goods (see again table 25).

Thus the imports of countries that have made most progress in the direction of import substitution have acquired a highly rigid structure, since they consist chiefly of essential items having a direct bearing on the present level of economic activity and employment and on the creation of the production capacity needed to increase income in the near future.

Accordingly, in the face of a stationary or slowly increasing external purchasing power which, moreover, tends to contract even further owing to the servicing of investment and foreign loans, the countries concerned find it difficult or virtually impossible to take any action in respect of imports without affecting their level of activity or future production capacity. The countries which have not reached an advanced stage of import substitution can, in principle, go ahead with that process. In fact, in view of the difficulties encountered in recent years, they have been restricting imports and deliberately promoting import substitution. But there is a limit to this process and unless they attain adequate external purchasing power they will be faced with the same bottleneck in the future.

This should not be construed as an attempt to pass judgment on the industrialization process, the aim being rather to point out that in the present state of the Latin American economies a development policy designed to achieve rational use of resources with a view to raising productivity inevitably calls for a certain level of imports as a means of promoting the industrialization process itself. The problem is how, within the context of the world as a whole and of Latin America's internal position, to bring about the conditions required for an expansion of Latin America's foreign trade, and thus to speed up the productivity growth rate by making the most of every advantage both at home and abroad.

3. Effects of the unfavourable development of the external sector in the nineteen fifties

In the early post-war years, Latin America as a whole registered relatively high export indices, exports representing 20 per cent of the gross product. While the physical volume of exports increased slowly, their purchasing power rose thanks to the terms of trade. High import levels were thereby attained which largely covered the needs which could not be met during the war. In those years both product and income registered the highest growth rates of the whole post-war period.

In the first half of the fifties, there was a deterioration in the terms of trade and volume of exports of countries in the temperate zones.

/However, while

However, while Latin America as a whole did not increase its volume of exports its purchasing power rose by 18 per cent compared with the first five-year period after the war.

Latin America, with relatively limited external financing of not more than 5 per cent of the value of its exports, thus succeeded in increasing its imports by 25 per cent. The product grew at an average annual rate of 5 per cent, and the import coefficient remained practically stable for the Latin American countries as a whole, although it tended to rise in countries with relatively few import restrictions and to decline in those engaged in import substitution.

Since 1955, the economic situation in Latin America has developed most unfavourably, notwithstanding the fact that the volume of exports expanded at the highest rates recorded since the thirties. The average annual volume of exports in 1955-61 was 30 per cent larger than for the preceding five-year period. At the same time, the deterioration in the terms of trade was such as to nullify 60 per cent of that increment in terms of purchasing power.

In spite of this, Latin America managed to increase its imports, albeit at a much lower rate. It did so by resorting extensively to external financing which was made available, partly through the movement of long-term capital, but which also called for balance of payments loans and the use of monetary reserves, in view of the difficult external accounts situation.

The growth rate of the product and income declined and the import coefficient fell - as indication of combined import substitution and the effect of the restrictive measures established in some countries at the time (see tables 26 and 27).

4. Effect of the deterioration in the external terms of trade

The deterioration in the external terms of trade for Latin America as a whole represented from 3 to 4 per cent of the gross domestic product, taking 1950 as the base year for comparison. If the period 1950-54 is taken as the point of reference, the percentage loss is about the same.

Two points clearly demonstrate the effect of the deterioration in the external terms of trade on the Latin American economy. One, of a general nature, shows that it is responsible for a decline of 20 to 30 per cent in the growth rate of the domestic product. The other indicates that if a comparison is made between the net inflows of capital of all kinds namely, long-term loans, direct investments and balance of payments loans, their combined total during the period 1955-61 is less than the losses in trade. While such inflows of capital amounted to some 8,000 million dollars, the effect of the deterioration is estimated at over 10,000 million dollars, at 1950 prices (see figure IV).

The decline in the growth rate and the deterioration in the external terms of trade have affected every country in the region, although varying in intensity and not always occurring in the same periods (see again tables 26 and 27).

Table 26

LATIN AMERICA: PRODUCT, REAL INCOME, CONSUMPTION, INVESTMENT AND EXTERNAL SECTOR, 1945-61

(Annual averages in millions of 1950 dollars)

Group of countries and period	Gross product	Real income	Total investment	Total consumption	Volume of exports a/	Effect of terms of trade	External factor payments	Net external financing	Imports of goods and services
Latin America									
1945-49	35 470	34 310	6 370	27 220	7 020	-1 160	710b/	240b/	5 140
1950-54	44 440	44 180	7 830	35 950	7 150	-260	780	380	6 490
1955-61	58 420	56 720	10 050	46 600	9 620	-1 700	990	940	7 870
1958	58 320	56 540	10 090	46 740	9 490	-1 780	940	1 230	8 000
1959	59 950	57 730	10 270	47 290	10 120	-2 220	920	750	7 730
1960	62 960	60 690	10 530	50 070	10 410	-2 270	950	920	8 110
1961	66 330	63 670	11 060	52 620	10 920	-2 660	980	1 170	8 450
Argentina, Bolivia, Chile, Paraguay and Uruguay									
1945-49	12 170	12 160	2 670	9 260	2 000	-10	160b/	-30b/	1 720
1950-54	13 750	13 710	2 710	11 010	1 600	40	40	50	1 570
1955-61	15 750	15 460	3 120	12 630	1 810	-290	100	390	1 810
1958	16 110	15 670	3 150	12 810	1 850	-440	80	370	1 700
1959	15 440	15 130	2 750	12 390	1 880	-310	90	100	1 580
1960	16 050	15 780	3 440	12 670	1 960	-270	120	450	2 020
1961	16 890	16 680	3 620	13 750	1 930	-210	170	860	2 410
Colombia, Ecuador and Peru									
1945-49	3 850	3 670	600	3 130	670	-180	30b/	90b/	550
1950-54	4 870	4 840	830	4 000	790	-30	50	40	750
1955-61	6 360	6 150	1 050	5 110	1 100	-210	80	90	900
1958	6 160	5 920	930	4 950	1 060	-240	100	60	780
1959	6 530	6 220	890	5 220	1 180	-310	90	-20	760
1960	6 940	6 620	1 070	5 510	1 260	-320	100	60	900
1961	7 310	6 940	1 200	5 770	1 340	-370	110	140	1 000
Central America, Cuba, Haiti and the Dominican Republic									
1945-49	3 710	3 590	370	3 000	1 110	-120	110b/	-60b/	770
1950-54	4 460	4 430	570	3 790	1 210	-30	100	30	1 110
1955-61 ^{c/}	5 550	5 440	840	4 640	1 500	-110	80	140	1 450
1958	5 500	5 400	880	4 700	1 560	-100	90	270	1 640
1959	5 560	5 320	860	4 570	1 530	-240	80	190	1 400
1960 ^{c/}	5 880	5 710	870	4 800	1 520	-170	40	60	1 370
1961 ^{c/}	6 190	5 910	850	4 990	1 620	-280	40	150	1 450
Brazil, Mexico and Venezuela									
1945-49	15 740	14 890	2 770	11 830	3 240	-850	410b/	240b/	2 100
1950-54	21 360	21 200	3 720	17 150	3 550	-160	590	260	3 060
1955-61	30 760	29 670	5 040	24 220	5 210	-1 090	730	320	3 710
1958	30 550	29 550	5 130	24 280	5 020	-1 000	670	530	3 880
1959	32 420	31 060	5 770	25 110	5 530	-1 360	660	480	3 990
1960	34 090	32 580	5 150	27 090	5 670	-1 510	690	350	3 820
1961	35 940	34 140	5 390	28 110	6 030	-1 800	660	20	3 590

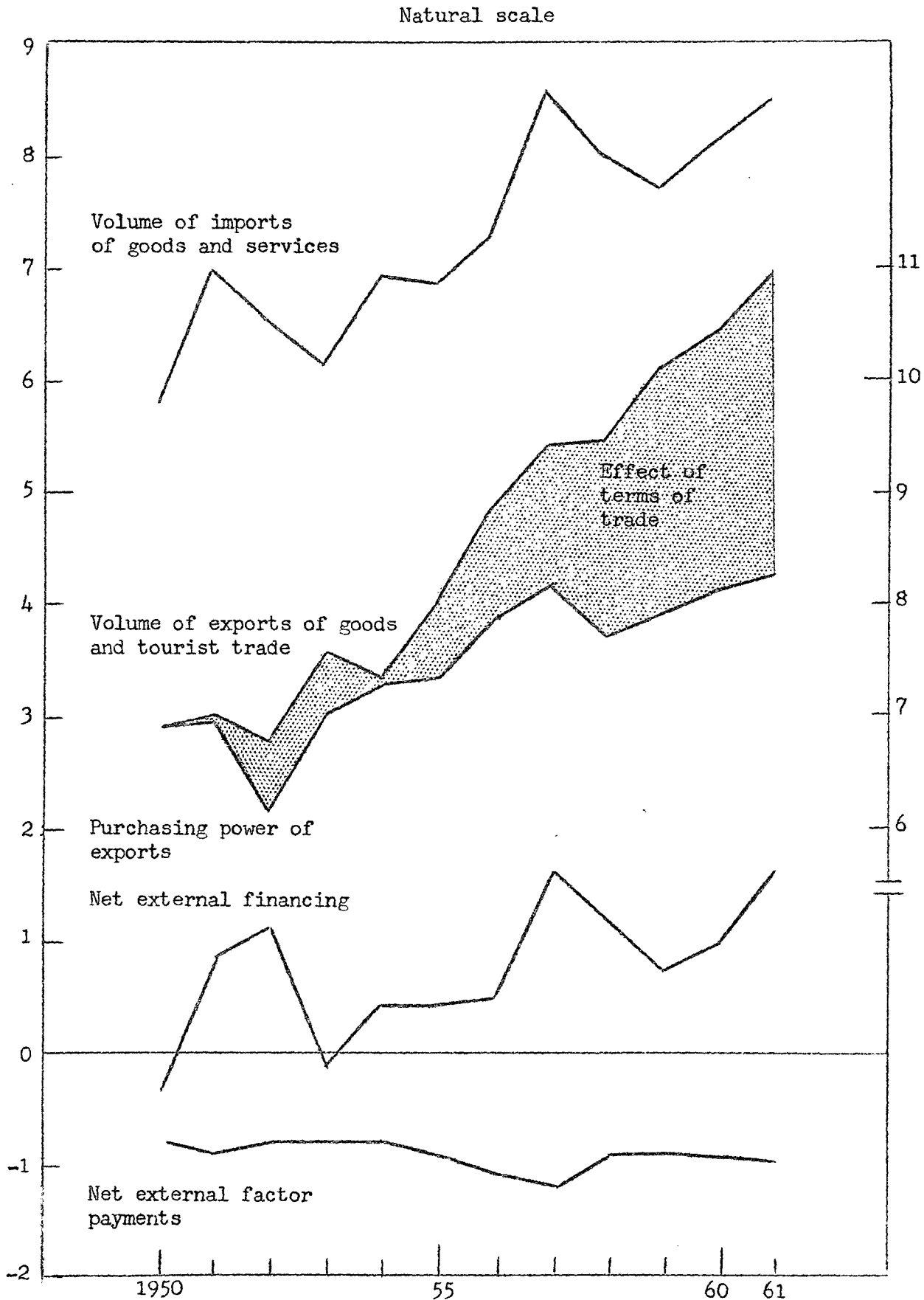
Sources: National statistics prepared by ECLA.

a/ Including tourist trade.

b/ Based on the period 1946-49.

c/ Including a very rough estimate for the Caribbean countries.

Figure IV
 LATIN AMERICA : EVOLUTION OF THE EXTERNAL SECTOR, 1950-61
 (Thousands of millions of 1950 dollars)



Source : ECLA, on the basis of official foreign trade statistics and data provided by the International Monetary Fund



Table 27

LATIN AMERICA: REAL INCOME, INVESTMENT AND EXTERNAL SECTOR, 1945-61

(As percentage of the gross domestic product)

Group of countries and period	Gross income	Total investment	Total consumption	Volume of exports ^{a/}	Effect of term of trade	External factor	Net external financing	Imports of goods and services	
<u>Latin America</u>	1945-49	96.7	18.0	76.7	19.8	-3.3	2.0b/	0.7b/	14.5
	1950-54	99.4	17.6	80.9	16.1	-0.6	1.8	0.9	14.6
	1955-61	97.1	17.2	79.8	16.5	-2.9	1.7	1.6	13.5
	1958	96.9	17.3	80.1	16.3	-3.1	1.6	2.1	13.7
	1959	96.3	17.1	78.9	16.9	-3.7	1.5	1.3	12.9
	1960	96.4	16.7	79.6	16.5	-3.6	1.5	1.5	12.9
	1961	96.0	16.7	79.4	16.5	-4.0	1.5	1.8	12.7
<u>Argentina, Bolivia Chile, Paraguay and Uruguay</u>	1945-49	99.9	21.6	76.1	16.4	-0.1	1.3b/	-0.3b/	14.1
	1950-54	99.7	19.7	80.0	11.6	-0.3	0.3	0.4	11.4
	1955-61	98.1	19.8	80.2	11.5	-1.8	0.6	2.5	11.5
	1958	97.3	19.5	79.5	11.5	-2.7	0.5	2.3	10.5
	1959	98.0	17.8	80.2	12.2	-2.0	0.6	0.6	10.2
	1960	98.3	21.4	78.9	12.2	-1.7	0.7	2.8	12.6
	1961	98.8	21.4	81.4	11.4	-1.2	1.0	5.1	14.3
<u>Colombia, Ecuador and Peru</u>	1945-50	95.3	15.6	81.3	17.4	-4.7	0.8b/	2.3b/	14.3
	1950-54	99.4	17.0	82.1	16.2	-0.6	1.0	0.8	15.4
	1955-61	96.7	16.5	80.3	17.3	-3.3	1.3	1.4	14.2
	1958	96.1	15.1	80.4	17.2	-3.9	1.6	1.0	12.7
	1959	95.3	13.6	79.9	18.1	-4.7	1.4	-0.3	11.6
	1960	95.4	15.4	79.4	18.2	-4.6	1.4	0.9	13.0
	1961	94.9	16.4	78.9	18.3	-5.1	1.5	1.9	13.7
<u>Central America, Cuba, Haiti and the Dominican Republic</u>	1945-49	96.8	10.0	80.9	29.9	-3.2	3.0b/	-1.6b/	20.9
	1950-54	99.3	12.8	85.0	27.1	-0.7	2.3	0.7	24.9
	1955-61 ^{c/}	98.0	15.1	83.6	27.0	-2.0	1.4	2.5	26.1
	1958	98.1	16.0	85.4	28.4	-1.8	1.6	4.9	29.8
	1959	95.7	15.5	82.1	27.5	-4.3	1.4	3.4	25.2
	1960 ^{c/}	97.1	14.8	81.6	25.9	-2.9	0.7	1.0	23.3
	1961 ^{c/}	95.5	13.7	80.6	26.2	-4.5	0.6	2.4	23.4
<u>Brazil, Mexico and Venezuela</u>	1945-49	94.6	17.6	75.2	20.6	-5.4	2.6b/	1.5b/	13.3
	1950-54	99.3	17.4	80.3	16.6	-0.7	2.8	1.2	14.3
	1955-61	96.5	16.4	78.7	16.9	-3.5	2.4	1.0	12.1
	1958	96.7	16.8	79.5	16.4	-3.3	2.2	1.7	12.7
	1959	95.8	17.8	77.5	17.0	-4.2	2.0	1.5	12.3
	1960	95.6	15.1	79.5	16.6	-4.4	2.0	1.0	11.2
	1961	95.0	15.0	78.2	16.8	-5.0	1.8	0.1	10.0

Source: National statistics prepared by ECLA.

a/ Including tourist, trade.

b/ Based on the average for the period 1946-49.

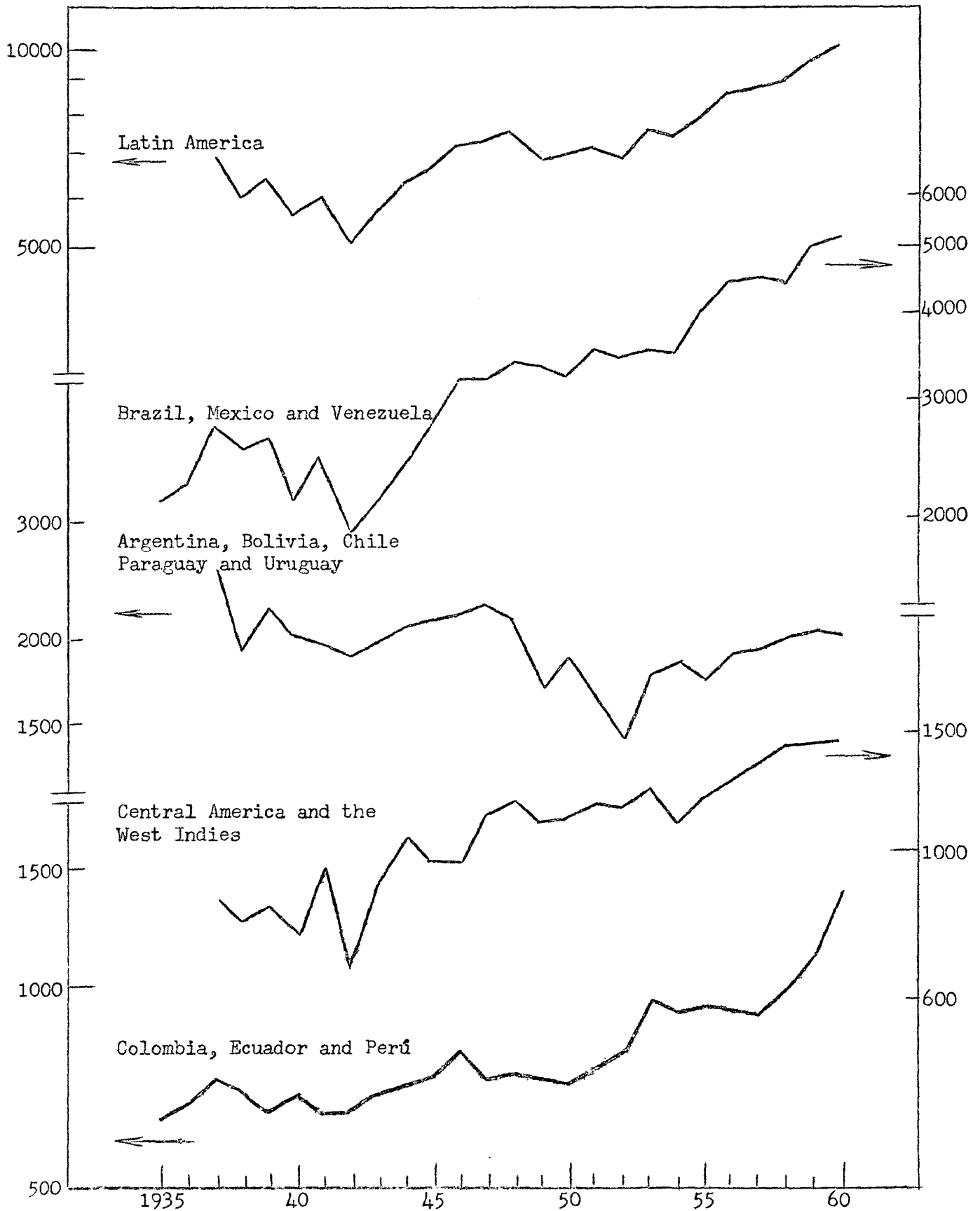
c/ Including a very rough estimate for the Caribbean countries.

/In the

In the temperate zone countries, deterioration set in earlier and was already in process at the beginning of the fifties. In the coffee-growing countries it became apparent in the second half of that decade, and notably affected the growth rate of the Central American countries from 1957 onwards (see figure V).

Of the major Latin American exports, only in the case of petroleum and some metallic ores can it be said that the terms of trade improved and that sales abroad increased.

Figure V
 LATIN AMERICA : VOLUME OF EXPORTS, 1935-60
 (Millions of 1955 dollars)
 Semi-logarithmic scale





C. EVOLUTION OF BALANCE-OF-PAYMENTS POSITION: CAPITAL MOVEMENTS
AND CRITICAL EXTERNAL FINANCIAL SITUATION OF LATIN AMERICA

1. Increase in deficits on external current accounts

Certain conditions inherent in the structure of the external sector of the Latin American economies are conducive to imbalances in their foreign trade accounts.

In the early years of the post-war period it was possible for such trends to be controlled in some measure by virtue of the relatively high level of exports and of the external terms of trade. But the slowness with which exports developed, in the first place, and later, when they expanded, the deterioration in their purchasing power, forced the deficits sharply upwards during the fifties (see table 28).

While in 1946-50 current foreign exchange transactions registered a deficit of only 130 million dollars for the Latin American countries as a whole, the figure in question was quintupled in the first half of the fifties, and, on an average, exceeded 1,100 million dollars during the second half of the decade.

In 1961, if Cuba is excluded for want of data and Venezuela because it showed a favourable balance, the accounts of the remaining eighteen Latin American countries reflected a deficit in respect of current expenditure amounting to nearly 1,500 million dollars.

The statistics presented in table 29 show that, with the single exception of the Dominican Republic, the external deficits of all countries were aggravated during the course of the fifties.

It is worth while to analyse fluctuations in the credit and debit entries on the balance of payments to ascertain the incidence of each on the increases in current account deficits.

During the first half of the fifties, the annual rise in income from exports of goods and services accruing to Latin America (excluding Cuba) averaged over 430 million dollars, but in the second half of the same decade, the increment dropped to under 300 million dollars yearly (see table 30).

At the same time, commitments under the head of profits and interest on foreign investment and loans increased more and more rapidly, so that whereas in 1950-55 they absorbed 11 per cent of current foreign exchange income, in the second half of the fifties the increment in these services represented over 20 per cent of the additional current income obtained.

Table 28

LATIN AMERICA: EVOLUTION OF BALANCE OF PAYMENTS ON CURRENT ACCOUNT

(Annual averages in millions of dollars)

Year or period	Exports			Imports			Net factor payments			Balance on current account
	Goods fob a/	Services	Total	Goods fob	Services b/	Total	Investment	Interest on loans, etc.	Total	
<u>A. Total Latin America</u>										
1946-50	5 951.5	564.0	6 515.5	-4 836.4	-1 087.4	-5 923.8	-672.2	-48.8	-721.0	-129.3
1951-55	7 756.9	917.2	8 674.1	-6 680.9	-1 699.4	-8 380.3	-875.9	-83.3	-959.2	-665.4
1956-60 c/	8 750.0	1 497.9	10 247.9	-7 774.4	-2 347.2	-10 121.6	-1 097.5	-177.2	-1 274.7	-1 148.4
<u>B. Latin America, excluding Cuba</u>										
1946-50	5 293.4	517.7	5 811.1	-4 364.2	-990.7	-5 354.9	-626.3	-42.3	-668.6	-212.4
1951-55	7 091.4	870.2	7 961.6	-6 067.9	-1 596.5	-7 664.4	-830.2	-84.5	-914.7	-617.5
1956-60	8 005.6	1 412.3	9 417.9	-7 038.7	-2 223.3	-9 262.0	-1 040.3	-177.0	-1 217.3	-1 061.4
1961	8 228.9	1 650.5	9 879.4	-7 352.6	-2 288.9	-9 641.5	-1 000.6	-306.6	-1 307.2	-1 069.3
<u>C. Latin America, excluding Cuba and Venezuela</u>										
1946-50	4 406.5	491.5	4 898.0	-3 787.6	-858.6	-4 646.2	-320.5	-42.4	-362.9	-111.1
1951-55	5 514.8	821.3	6 336.1	-5 212.6	-1 309.9	-6 522.5	-354.6	-84.1	-433.7	-625.1
1956-60	5 539.0	1 308.3	6 847.3	-5 607.6	-1 650.7	-7 258.3	-369.1	-175.4	-544.5	-955.5
1961	5 791.1	1 536.2	7 327.3	-6 259.0	-1 845.2	-8 104.2	-454.4	-285.3	-739.7	-1 516.6

Source: International Monetary Fund, Balance of Payments Yearbook, Vols. 8, 12, 13 and 14.

a/ Including net movements of non-monetary gold.

b/ Including net private donations.

c/ Not including Cuba in 1960.

Table 29

LATIN AMERICA: EVOLUTION OF BALANCE-OF-PAYMENTS POSITION ON CURRENT ACCOUNT, BY COUNTRY

(Annual averages in millions of dollars)

Groups of countries	1946-50	1951-55	1956-60	1961
Group A				
Argentina	+84.9	-140.4	-177.5	-584.4
Bolivia	-9.2	-13.9	-27.4	-32.1
Chile	-36.9	-14.0	-84.3	-279.6
Paraguay	-1.8	-2.2	-10.2	-10.7
Uruguay	+3.1	-27.3	-53.3	-16.5
<u>Total Group A</u>	<u>+40.1</u>	<u>-197.8</u>	<u>-352.7</u>	<u>-923.3</u>
Group B				
Colombia	-45.3	-24.5	-21.0	-141.8
Ecuador	-5.1	-4.3	-12.3	-23.4
Peru	-10.4	-41.8	-72.4	+18.2
<u>Total Group B</u>	<u>-60.8</u>	<u>-70.6</u>	<u>-63.7</u>	<u>-147.0</u>
Group C₁ (Caribbean)				
Cuba	+83.0	-47.8	-86.9 ^{a/}	...
Dominican Republic	+7.8	+2.8	+8.4	+40.8
Haiti	+0.8	-5.2	+0.9	-3.1
<u>Total Group C₁</u>	<u>+91.6</u>	<u>-50.2</u>	<u>-77.6</u>	<u>+37.7</u>
Group C₂ (Central America)				
Costa Rica	-7.5	-2.9	-18.1	-17.7
El Salvador	+7.2	+6.7	-4.3	-1.8
Guatemala	+0.1	+2.7	-35.9	-28.5
Honduras	-5.0	-5.3	-6.4	0.0
Nicaragua	-3.1	-1.6	-7.6	-7.0
Panama	-17.0	-18.7	-36.2	-45.6
<u>Total Group C₂</u>	<u>-25.5</u>	<u>-19.1</u>	<u>-108.5</u>	<u>-100.6</u>
Group D				
Brazil	+9.4	-288.8	-297.6	-292.0
Mexico	-82.9	-46.5	-142.3	-91.4
Venezuela	-101.2	+7.5	-105.9	+447.3
<u>Total Group D</u>	<u>-174.7</u>	<u>-327.8</u>	<u>-545.8</u>	<u>+63.9</u>
<u>Total Latin America, excluding Cuba and Venezuela</u>	<u>-111.1</u>	<u>-625.2</u>	<u>-955.5</u>	<u>-1 516.6</u>
<u>Total Latin America, excluding Cuba</u>	<u>-212.3</u>	<u>-617.7</u>	<u>-1 061.4</u>	<u>-1 069.3</u>
<u>Total Latin America</u>	<u>-129.3</u>	<u>-665.5</u>	<u>-1 148.3^{b/}</u>	<u>...</u>

Source: As for table 28.

a/ 1956-59.

b/ Not including Cuba in 1960.

/As will

As will be shown at a later stage, the inflow of capital into Latin America increased in volume during this period, but nevertheless the tempo of imports slackened in accordance with the evolution of available purchasing power. From an average annual increment of 340 million dollars f.o.b., the rate of growth decreased to less than 200 million. There was also a decline in real terms, for the purchasing power of these dollars at current prices decreased. By contrast, balance-of-payments deficits on current account for Latin America as a whole rose from 80 million dollars per annum to 90 million dollars.

Venezuela exerted a preponderant influence on the figures in question. If the analysis is related to the group of eighteen Latin American countries which does not include Cuba and Venezuela, the fluctuations in the positive and negative balance-of-payments movements are as shown in table 31.

In the early fifties, the countries in this group increased their foreign exchange earnings on exports of goods by an annual average of 200 million dollars, but in the second half of the decade income from this source tended to remain virtually stationary. Only income from services, pre-eminent among which was the tourist industry, continued to expand, but the benefit was reaped by only a few of the countries of the group, in particular Mexico.

If the figure of 24 million dollars that represents the average annual increase in export earnings between the two quinquennia of the fifties is compared with the figure for the variation in the real value of exports, which is estimated at 1,100 million dollars at 1950 prices, the magnitude of the fall in export prices affecting this group of countries emerges very clearly indeed.

Table 31. reveals, moreover, the upward trend of the burden represented by profits and interest on foreign investment and loans for the group of countries under discussion, for while in the first half of the fifties the increase in such commitments corresponded to 5 per cent of the increment in current exchange earnings from exports of goods and the tourist industry, the proportion subsequently rose to 20 per cent, without taking into account amortization figures.

In the upshot, despite the increases in capital inflows which will be studied below, this group of countries had to restrict its imports sharply in relation to the potential demand deriving from higher income levels. The average annual rate of increase of its imports sank from 300 million dollars f.o.b. to 80 million dollars. The stagnation which affected the foreign exchange earnings on exports of goods from these eighteen countries as a whole is so surprising that it is worth while to trace the trends registered in individual countries.

As already stated, for the group as a whole the annual average increase between the two five-year periods was only 24 million dollars. The analysis shows that in four countries the income under consideration decreased, as follows: Bolivia (- 20 million); Brazil (- 205 million); Haiti (- 6 million);

Table 30

LATIN AMERICA:^{a/} VARIATIONS IN BALANCE-OF-PAYMENTS ASSETS AND
LIABILITIES ON CURRENT ACCOUNT, 1950-60

(Millions of dollars)

Increase in:	Between 1946-50 and 1951-55	Between 1951-55 and 1956-60
Exports	<u>2 151</u>	<u>1 456</u>
(a) Goods <u>fob</u>	1 798	914
(b) Services	353	542
Profits and interest on foreign investment and loans	-246	-304
Imports	<u>-2 310</u>	<u>-1 598</u>
(a) Goods f.o.b.	-1 704	-971
(b) Services	-606	-627
Excess current outflow	-405	-444

^{a/} Excluding Cuba.

Table 31

LATIN AMERICA^{a/}: VARIATIONS IN BALANCE-OF-PAYMENTS ASSETS AND
LIABILITIES ON CURRENT ACCOUNT, 1950-60

(Millions of dollars)

Increase in:	Between 1946-50 and 1951-55	Between 1951-55 and 1956-60
Exports	<u>1 438</u>	<u>511</u>
(a) Goods <u>fob</u>	1 108	24
(b) Services	330	487
Profits and interest on foreign investment and loans	-76	-105
Imports	<u>-1 876</u>	<u>-736</u>
(a) Goods f.o.b.	-1 425	-395
(b) Services	-451	-341
Excess current outflow	-514	-330

^{a/} Excluding Cuba and Venezuela.

/and Uruguay

and Uruguay (- 100 million). In three countries, namely, Argentina, Colombia and Paraguay, earnings remained virtually unchanged. They increased, although in relatively small measure, in Costa Rica and Chile and followed more favourable trends in the Dominican Republic (+ 27 million); Ecuador (+ 36 million); El Salvador (+ 20 million); Guatemala (+ 20 million); Mexico (+ 105 million); Nicaragua (+ 107 million) and Peru (+ 90 million).

It must be borne in mind that the foregoing figures relate to an average increase over a period of five years, and that for this reason they lose relative importance in some cases when they are related to annual fluctuations.

2. Capital movements and their share in external financing

Movements of capital increased considerably during the fifties, and combined with trade financing, balance-of-payments loans and the use of monetary reserves to compensate the current account deficits examined above.

During the first half of the fifties, net autonomous capital receipts averaged 500 million dollars annually in Latin America as a whole, excluding Cuba for lack of data. They subsequently climbed to 1,300 million dollars and dropped to 1,100 million dollars during 1961.

As a result of the deterioration in external accounts, financing by means of trade debts and balance-of-payments loans tended to increase from a net figure of 16 million dollars before the fifties to averages of 130 and 160 million in later years. For their part, monetary reserves have decreased steadily up to the present (see table 32).

Latin America's balance-of-payments accounts show relatively high sums under the head of errors and omissions. These figures are thought to include outflows of private capital, but the exact amount is still indeterminate. If, in order to ascertain the extent to which each of the movements of capital contributes to external financing, the figures for errors and omissions are subtracted from autonomous capital receipts, it will be seen that Latin America's aggregate balance-of-payments deficit (excluding Cuba) was financed in the following proportions from 1950 onwards: 74 per cent from net autonomous capital receipts; 15 per cent from compensatory movements and 11 per cent from monetary reserves.

In some countries monetary reserves were drawn on more intensively in the early post-war years to meet the costs of nationalization and repatriation of foreign investment and their share of financing is naturally tending to shrink since a limit has to be set to the drain upon them.

If Venezuela is excluded so that the evolution of capital movements in the remaining eighteen Latin American countries can be traced more clearly, net autonomous capital receipts will be seen to have totalled 1,000 million dollars annually in the second half of the fifties and to have risen to as much as 1,300 million dollars in 1961. This trend testifies to the importance of these capital movements in Latin America's external financing, although it should be noted that the figures include reinvested profits of foreign firms.

Table 32

LATIN AMERICA: FINANCING OF BALANCE ON CURRENT ACCOUNT

(Annual averages in millions of dollars)

Year or period	Net autonomous capital movements	Trade debts and balance-of-payments loans	Net monetary reserves (increase -)	Errors and omissions	Total
<u>A. Total Latin America</u>					
1946-50	+84.4	+15.8	+76.4	-47.3	+129.3
1951-55	+578.4	+131.2	+45.4	-89.6	+655.4
1956-60	+1 352.8	+158.8	+129.9	-493.1	+1 148.4
<u>B. Latin America, excluding Cuba</u>					
1946-50	+119.7	+15.8	+116.4	-39.5	+212.4
1951-55	+511.7	+131.2	+63.0	-88.4	+617.5
1956-60	+1 288.9	+158.8	+52.2	-438.5	+1 061.4
1961	954.3	+227.5	+345.3	-457.8	+1 069.3
<u>C. Latin America, excluding Cuba and Venezuela</u>					
1946-50	-73.5	+15.8	+144.0	+24.8	+111.1
1951-55	+432.2	+131.2	+96.2	-34.5	+625.1
1956-60	+979.3	+118.8	+66.2	-208.7	+955.5
1961	+1 337.7	+260.8	+318.6	-400.5	+1 516.6

Source: As for table 28.

/If recent

If recent trends are considered in relation to the aims of economic development plans, the foregoing data will provide a yardstick for assessing Latin America's future financial requirements should the evolution of its external purchasing power take a given course.

3. Net autonomous capital movements

One factor that should be given due attention in the context of the policy of international financial co-operation is the increasing importance of long-term loans in comparison with direct investment (see table 33).

The figures for the group of eighteen countries show, in fact, that the yearly average for net long-term loans rose from 95 to 320 million dollars in the course of the fifties, and even higher during 1961 when net receipts are estimated to have been approximately 950 million dollars.

Direct investment (including reinvestment) climbed in its turn from 250 to 540 million dollars during the fifties but was only 350 million in 1961. Thus, in absolute terms, net long-term loans came to exceed direct investment, even with due allowance made for reinvested profits.

To illustrate this point, it may be added that the balances of payments for the eighteen countries show that commitments under the head of remuneration and profits on foreign investment amounted to 350 million dollars annually in the fifties while direct net investment averaged 400 million.

The increase in direct investment towards the end of the fifties came mainly from Argentina, Brazil, Chile, Guatemala, Peru and Venezuela, and its subsequent decline in 1961 from an average of 850 to 300 million dollars can be ascribed to a reduction in investment in that same group of countries, which apparently did not involve either Chile or Mexico.

It is estimated that 78 per cent of direct investment was made by the United States or corresponded to reinvestment of profits on capital from that country, while the bulk of the remaining 22 per cent came from western Europe and Japan.

In 1951-60 the net long-term loans received by Latin America (including Cuba up to 1959) totalled 2,300 million dollars. Of this sum, more than 1,600 million were supplied by international financial institutions and United States Government agencies while about 600 million came from portfolio investment and medium-term trade credits, mainly of European origin.

In short, 25 per cent of the long-term loans were provided by international financial institutions; 44 per cent by the various United States Government agencies and 31 per cent by other sources, particularly private banks in Europe and Japan operating on the basis of medium-term trade credits.

Table 33

LATIN AMERICA: NET AUTONOMOUS CAPITAL MOVEMENTS

(Annual averages in million of dollars)

Year or period	Direct net investment a/	Net long-term loans			Net official donations	Other movements	Total
		To private sector	To public sector	Total			
<u>A. Total Latin America</u>							
1946-50	+331.1	-5.6	-224.0	-229.6	+20.0	-37.1	84.4
1951-55	+343.1	+55.9	+63.5	+119.4	+29.3	+86.6	578.4
1956-60 b/	+919.0	+192.9	+139.2	+332.1	+99.3	-2.4	1 352.8
<u>B. Latin America, excluding Cuba</u>							
1946-50	+329.2	-5.6	-218.1	-223.7	+21.0	-6.8	119.7
1951-55	+325.3	+48.2	+45.1	+93.3	+29.2	+63.9	511.7
1956-60	+853.3	+183.4	+148.3	+331.7	+98.8	+5.1	1 288.9
1961	+273.9	+323.2	+579.6	+902.8	+130.7	+353.1	954.3
<u>C. Latin America, excluding Cuba and Venezuela</u>							
1946-50	+123.9	-5.6	-218.0	-223.6	+20.9	+5.3	-73.5
1951-55	+252.0	+49.0	+45.5	+94.5	+29.0	+56.7	+432.2
1956-60	+543.1	+181.7	+139.3	+321.0	+98.7	+16.5	+979.3
1961	+354.4	+320.1	+625.8	+945.9	+130.5	-93.1	+1 337.7

Source: As for table 28.

a/ Including reinvestment.

b/ Not including Cuba in 1960.

/The relatively

The relatively high figure of 900 million dollars for net long-term loans in 1961 represented the sum of the development loans granted by United States Government agencies, which from 200 million dollars in 1960 rose to 500 million in 1961, and the medium-term credits extended by European banks, which had been only 70 million in 1960 and climbed to 400 million in the following year.

Official donations are the other important element in autonomous capital movements. They, too, have increased, and in recent years have come to represent a net inflow of over 100 million dollars for Latin America.

A review of the sources of the autonomous capital entering Latin America in the fifties shows that the United States accounted for 72 per cent of the total; international financial institutions for 6 per cent, and Western Europe and Japan for the bulk of the remaining 22 per cent.

4. Net compensatory movements

Despite the sizable increase in the inflow of autonomous capital, and notwithstanding import restriction and substitution, the shortage of current exchange earnings had such an effect on the area's balance of payments that the Latin American countries were forced to resort, extensively at times, to compensatory financing.

Table 32 presents the figures for these movements under two headings: trade debts and balance-of-payments loans, and monetary reserves. Trade arrears were relatively large for some countries and led to the signing of consolidation agreements or to refinancing by means of balance-of-payments loans. In 1951-60 loans of this kind plus trade debts are estimated to have amounted to roughly 1,600 million dollars, and may well have been even more. Utilization of monetary reserves can be measured by the net gold and foreign exchange balances in the hands of the monetary authorities. During the fifties the aggregate balances for Latin America as a whole, excluding Cuba, shrank by about 600 million dollars. If Venezuela, which was able to add to its reserves, is not taken into account, the losses suffered by the group of eighteen countries amounted to more than 800 million dollars.

The same trend continued in 1961, and statistics show a drop of 350 million dollars in net reserves. This substantial sum testifies to the heavy drawings on foreign exchange obtained from earlier loans and credits.

5. Evolution of total purchasing power

Earlier in this paper an examination was made of the evolution of Latin America's purchasing power as regards the trend of exports and the terms of trade. An analysis was undertaken to determine, in real terms, the influence of the external sector on the purchasing power of exports and on the evolution of the product and income.

/It would

It would be useful at this juncture to complement that analysis by reviewing the influence of capital movements and servicing commitments on external accounts. This would help to complete the picture of Latin America's present financial situation and to shed light on certain aspects which are salient to the determination of future financial policy.

Table 34 presents statistics on the evolution of exchange earnings from exports of goods and services and the additional purchasing power generated by net autonomous capital movements. The foreign exchange from these two sources has to be used to pay remuneration and profits in respect of external factors of production and to service balance-of-payments loans and trade debts. The balance represents the income available for importing goods and paying for external service.

As the value of their imports of goods and services outstripped their purchasing power, the Latin American countries had to resort to compensatory financing in the shape of trade credits, or balance-of-payments loans, drew upon their own reserves or incurred trade arrears.

The analysis should take into account private capital outflows which are thought to have reached sizable proportions and are entered under errors and omissions although their exact amount is not known.

Table 34 gives a clear picture of the incidence of various factors on the evolution of external accounts. In the first place existing purchasing power is unable to satisfy import demand for goods and services despite import substitution and restrictions. The result is an increasingly large deficit which has had to be covered by compensatory financing. Secondly, export income from goods and services, which is one of the positive elements in purchasing power, has been very slow to improve and its tempo becomes even slower if the group of eighteen countries excluding Venezuela and Cuba is considered. Thirdly, servicing obligations have become much heavier, especially if amortization of compensatory loans and trade arrears is taken into account.

It is apparent from this analysis that whereas the foreign exchange available to Latin America (excluding Cuba) for its imports increased during the fifties, first at the average rate of 430 million dollars a year and subsequently of 300 million dollars, exports and net autonomous capital receipts before deductions for errors and omissions rose at average rates of 500 million and 440 million dollars respectively. The disparities are due to the fact that the increase in financial servicing and the outflow of private capital took up part of the additional purchasing power acquired by the Latin American countries from their exports and autonomous capital receipts. Table 35 shows the variations that took place on the credit and debit sides of purchasing power in the post-war period.

In the first half of the fifties the increase in the income available for imports of goods and payment of services was virtually equivalent to the increase in income from exports of goods and services. The inflow of autonomous capital was offset by servicing liabilities, including errors and omissions.

Table 34

LATIN AMERICA: TOTAL PURCHASING POWER AND IMPORTS OF GOODS AND SERVICES

(Annual averages in millions of dollars)

Year or period	Exports			Total purchasing power					Imports of goods and ser- vices	Balance a/	
	Goods fob	Services	Total	Net auto- nomous capital move- ments	Net external factor payments	Amortiza- tion of deferred import payments and bal- ance of payments loans	Sub-total	Errors and omis- sions			Total
<u>A. Total Latin America</u>											
1946-50	5 951.5	564.0	6 515.5	+84.4	-721.0	-44.2	5 834.7	-47.3	5 787.4	5 923.8	-136.1
1951-55	7 756.9	917.2	8 674.1	+578.4	-959.2	-127.1	8 166.2	-89.5	8 076.7	8 380.3	-303.6
1956-60 ^{b/}	8 750.0	1 497.9	10 247.9	+1 352.8	-1 274.7	-172.3	10 153.7	-493.1	9 660.6	10 121.6	-461.0
<u>B. Latin America, excluding Cuba</u>											
1946-50	5 293.4	517.7	5 811.1	+119.7	-668.6	-44.2	5 218.0	-39.5	5 178.5	5 354.9	-176.1
1951-55	7 091.4	870.2	7 961.6	+511.7	-914.7	-127.1	7 431.5	-88.4	7 343.1	7 664.4	-321.3
1956-60	8 005.6	1 412.3	9 417.9	+1 288.9	-1 217.3	-172.3	9 317.2	-438.5	8 878.7	9 262.0	-383.3
1961	8 228.9	1 650.5	9 874.4	+954.3	-1 307.2	-193.7	9 332.8	-457.8	8 875.0	9 641.5	-766.5
<u>C. Latin America, excluding Cuba and Venezuela</u>											
1946-50	4 406.5	491.5	4 898.0	-73.5	-362.9	-44.2	4 417.4	+24.8	4 442.2	4 646.2	-204.0
1951-55	5 514.8	821.3	6 336.1	+432.2	-438.7	-127.1	6 202.5	-34.5	6 168.0	6 522.5	-354.5
1956-60	5 539.0	1 308.3	6 847.3	+979.3	-544.5	-172.3	7 109.8	-208.7	6 901.1	7 258.3	-357.2
1961	5 791.1	1 536.1	7 327.3	+1 337.7	-739.7	-160.4	7 764.9	-400.5	7 364.4	8 104.2	-739.8

Source: As for table 28.

a/ This balance is equivalent, and of an opposite sign, to gross credits in the form of deferred import payments and balance of payments loans plus variations in the net holdings of monetary authorities (increase-).

b/ Not including Cuba in 1960.

Table 35

LATIN AMERICA^{a/}: VARIATIONS IN THE POSITIVE AND NEGATIVE COMPONENTS
OF PURCHASING POWER, 1950-60

(Millions of dollars)

Increase in:	Between 1946-50 and 1951-55	Between 1951-55 and 1956-60
Exports	2 150	1 456
(a) Goods <u>FOB</u>	1 798	914
(b) Services	352	542
Net autonomous capital	392	777
Errors and omissions	-49	-350
Profits and interest on foreign investment and loans	-246	-303
Amortization of compensatory loans and trade debts	-83	-45
Income available for imports of goods and services	2 164	1 535

^{a/} Excluding Cuba.

/The comparative

The comparative position of these figures in the accounts changed very little during the second half of the fifties. Once again the additional inflow of autonomous capital was largely counterbalanced by higher service payments and larger entries for errors and omissions.

In view of the importance of Venezuela's external financial movements, table 36 relating to the other eighteen Latin American countries should be considered separately. These countries' aggregate purchasing power for imports and payment of services also increased in the fifties although in that same period there was virtually no increment in export earnings.

As indicated in table 36, the annual average for net cumulative receipts of capital in 1951-55 was 500 million dollars more than the corresponding figures in 1946-50. In the latter part of the decade receipts continued to rise, their annual average being 540 million dollars more than in the first half. As a result, the supply of income available to the eighteen countries for import purposes was larger than their export earnings, but this margin of purchasing power constituted less than half the increase in autonomous capital because of the cost of financial servicing, including errors and omissions.

6. The critical state of Latin America's external financial position

The evolution of Latin America's external accounts may be summed up in the following conclusions:

- (a) From 1955 onwards the quantum of exports expanded at one of the highest rates observed since the Depression, i.e. approximately 4.5 per cent annually, but the deterioration in the external terms of trade was such that it wiped out two-thirds of the purchasing power of exports, and for Latin America (excluding Cuba and Venezuela) current export earnings in foreign exchange remained virtually at a standstill.
- (b) The Latin American countries disposed of a relatively large volume of net capital from long-term loans and direct investment, but the effect of this on purchasing power was reduced by the increase in financial service payments.
- (c) The growth rate of imports had to be slackened, but although substitution continued, the rate of income improvement began to flag and external indebtedness increased.
- (d) The burden of servicing thus became much heavier, and the ensuing external financial situation revealed by the balances of payments is extremely rigid and unsatisfactory and presents a formidable barrier to the achievement of the most modest objectives in development plans.

Table 36

LATIN AMERICA^{a/}: VARIATIONS IN THE POSITIVE AND NEGATIVE COMPONENTS
OF PURCHASING POWER, 1950-60

(Millions of dollars)

Increase in:	Between 1946-50 and 1951-55	Between 1951-55 and 1956-60
Exports	1 438	511
(a) Goods <u>fob</u>	1 108	24
(b) Services	330	487
Net autonomous capital	505	547
Errors and omissions	-59	-174
Profits and interest on foreign investment and loans	-76	-106
Amortization of compensatory loans and trade debts	-83	-46
Income available for imports of goods and services	1 725	733

^{a/} Excluding Cuba and Venezuela.

/The following

The following data will serve to round off or synthesize this analysis:

(i) Towards 1960 monetary reserves accounted for only 25 per cent of the total cost of annual imports of goods and services, and for far less if short-term liabilities are discounted and net reserves and assets taken into account. For example, the ratio of net reserves to annual imports in Uruguay dropped from 88 per cent in 1951 to 42 per cent in 1960, in Argentina from 31 per cent (1951) to 10 per cent (1961) and in Brazil from 30 per cent (1953) to 2 per cent (1961).

(ii) If the ratio of interest and amortization commitments to current exchange earnings is examined under every head, it will be seen that the original figure of 5 per cent rose to 11 per cent during the fifties and to 15 per cent in recent years (see table 37).

(iii) In the group of eighteen countries excluding Cuba and Venezuela, the coefficient for commitments of this kind in 1961 was 17 per cent, of which 4 per cent corresponded to interest and 13 per cent to amortization.

(iv) Another commitment constituting a drain on current exchange earnings are profits on direct investment. These have tended to maintain the same relation to export earnings but because of the latter's slow growth they represent a sizable amount fluctuating between 10 and 11 per cent.

These coefficients indicate the average situation in the group considered, but there are some countries whose situation is even more critical.

It is clear from all that has been said that the Latin American countries are facing serious difficulties, not only in their attempts to meet their servicing commitments but also to increase their indebtedness in accordance with the established principles of interest and amortization.

Table 37

LATIN AMERICA: FINANCIAL SERVICING

(Percentage of current foreign exchange earnings)

Year or period	Profits on direct investment ^{a/}	Servicing of external debt			Total
		Interest	Amortization	Total	
<u>A. Total Latin America</u>					
1946-50	10.3	0.7	...	...	...
1951-55	10.1	1.0	3.7	4.7	14.8
1956-60	10.7	1.7	8.6	10.3	21.0
1961	...	...	...	...	...
<u>B. Latin America, excluding Cuba</u>					
1946-50	10.8	0.7	...	...	...
1951-55	10.4	1.1	3.9	5.0	15.4
1956-60	11.0	1.9	8.8	10.7	21.7
1961	9.8	2.9	11.7	14.6	24.4
<u>C. Latin America, excluding Cuba and Venezuela</u>					
1946-50	6.5	0.9	...	...	...
1951-55	5.6	1.3	5.0	6.3	11.9
1956-60	5.4	2.7	9.3	11.9	17.3
1961	5.8	3.7	13.0	16.7	22.5

Source: As for table 28.

^{a/} Including re-investment.

/D. LATIN

D. LATIN AMERICA'S ECONOMIC DEVELOPMENT PROSPECTS AND FOREIGN TRADE REQUIREMENTS

1. Prospects for economic growth under present internal and external conditions

The pattern of Latin America's economic development after the war provides an objective frame of reference for evaluating its development prospects. The gist of the first three sections on that subject is as follows: the average annual increase in Latin America's aggregate income is estimated at less than 5 per cent. While the purchasing power of its exports expanded at an annual rate of 2.7 per cent, it was able to increase its imports at an annual rate of nearly 4 per cent through intensive use of external credit and its own monetary reserves. In the last few years, the rate of growth slackened, the region's external indebtedness increased and it is currently having great difficulty in meeting its financial service commitments.

What, it may now be asked, are Latin America's economic development prospects under present external and internal conditions?

While the best way of answering this question would be to examine in detail the prospects of each country, as will be done below, an over-all evaluation will suffice at this point, particularly since most of the Latin American countries are affected by the same adverse factors in respect of their external sector.

For the purposes of this evaluation a very limited annual growth rate of not more than 2 per cent per capita will be considered on the assumption that Latin American exports will continue to grow at an annual rate of 2.7 per cent in terms of purchasing power and that the region as a whole will maintain the process of import substitution and restriction that it pursued during the whole of the post-war period.

In these circumstances, Latin America's import requirements towards 1966 (excluding those of Cuba) would total 10,000 million dollars at 1960 prices. Moreover, its commitments under the head of profits and interest on current investment and debts may be roughly estimated at 1,400 million dollars. Consequently, with a hypothetical income of 9,700 million dollars, Latin America would have a deficit of over 1,700 million dollars.

Capital inflows in the form of direct investment and long and medium-term loans would have to be used to wipe out the deficit, to amortize current debts and to service fresh debts acquired. Amortization of current debts may represent 800 million dollars. Consequently, gross capital receipts would have to be as much as 2,500 million, quite apart from the additional revenue needed to service new investment and debts.

/The gap

The gap between commitments under the head of imports and financial servicing on the one hand and projected export income on the other would continue to widen up to 1970, thereby increasing the deficit on current account to about 2,300 million dollars. At best, amortization of current debts might have dropped by then to 400 million dollars which means that capital inflows would have to be more than 2,700 million, always excluding the servicing of new investment and loans.

A relatively intensive process of import substitution has been tacitly assumed for Venezuela in the projections. The deficit on current account should therefore be largely attributed to the remaining eighteen countries. Any change made in the projection for Venezuela is liable to increase the deficit accordingly (see tables 38 and 39).

If the purchasing power of Latin America's exports increases at an average of 2.7 per cent as in the past, annual net external financing would have to double in the brief space of four or five years, and by 1970 would have to be two and a half times as much as it is now.

This would be the situation despite import substitution and restriction which would reduce the present import coefficient from 11.2 per cent to 10.3 per cent by 1970. Moreover, the per capita growth rate postulated for the product is 2 per cent, which means that it would take 35 years to double average current income.

In short, unless there is a change in the economic and financial conditions, both external and internal, which affect the Latin American economy, Latin America will obviously find it extremely difficult to achieve even low rates of growth.

This opinion is confirmed by the situation and outlook of world trade, since the commodity analysis undertaken in chapter III shows that total exports cannot be expected to increase more than 2.5 per cent.

2. Additional purchasing power obtainable through an improvement in the external terms of trade

In the foregoing analysis, exports were projected as increasing at the rate of 2.7 per cent. If the external terms of trade continue to fall as they did in the fifties, the volume of exports would have to expand proportionately in order to maintain the level of purchasing power envisaged.

In order to show the extent to which the deterioration in the terms of trade has been instrumental in reducing Latin America's rate of growth, and to indicate what would be likely to happen if they improved, information will be given on the extra volume of purchasing power that would be obtained if Latin America's traditional exports achieved in 1966 and 1970 the purchasing power in terms of imports that they had in 1950-54 (see table 40).

Table 38

LATIN AMERICA: a/ PROJECTIONS OF THE PRODUCT AND THE RESOURCES AVAILABLE
FOR CONSUMPTION AND INVESTMENT, ASSUMING A 2 PER CENT
GROWTH RATE IN THE PER CAPITA PRODUCT

(Millions of 1960 dollars)

Year or period	Gross domestic product	Cif imports <u>b/</u>	Total resources	Exports of goods and net tourist trade	Internal use in consumption and investment
1959	68 460	7 600	76 060	7 980	68 080
1960	71 670	8 130	79 800	8 310	71 490
1961	75 030	8 300	83 330	8 530	74 800
Average 1959-61	71 720	8 010	79 730	8 280	71 450
Projections					
1966	94 480	10 070	104 550	9 710	94 840
1970	113 540	11 710	125 250	10 800	114 450

a/ Excluding Cuba.

b/ Including net services.

Table 39

LATIN AMERICA^{a/}: PROJECTIONS OF THE BALANCE OF PAYMENTS ON CURRENT ACCOUNT,
ASSUMING A 2 PER CENT GROWTH RATE IN THE PER CAPITA PRODUCT

(Millions of 1960 dollars)

Year or period	Income from exports of goods and net tourist trade	Expenditure			Balance on current account	Amorti- zation of existing debts c/	Balance on current account and amortization of existing debts
		Cif imports b/	Profits and interest on foreign investment and loans	Total expend- iture			
1959	7 980	7 600	1 070	8 670	-690	-1 070	-1 760
1960	8 310	8 130	1 170	9 300	-990	-1 150	-2 140
1961	8 530	8 300	1 260	9 560	-1 030	-1 140	-2 170
Average 1959-61	8 280	8 010	1 170	9 180	-900	-1 120	-2 020
Projections 1966	9 710	10 070	1 390	11 460	-1 750	-790	-2 540
1970	10 800	11 710	1 430	13 140	-2 340	-390	-2 730

a/ Excluding Cuba.

b/ Including net services.

c/ Tentative estimate.

Table 40

PROJECTIONS OF ADDITIONAL PURCHASING POWER OF LATIN AMERICAN EXPORTS a/
IN 1966 AND 1970, IN RELATION TO THE 1950-54 TERMS OF TRADE,
ASSUMING AN ANNUAL GROWTH IN EXPORTS OF 2.7 PER CENT

(Million of dollars at 1960 prices)

Year or period	Value of exports	Additional purchasing power
Average 1959-61	8 026	
1966	9 417	1 990
1970	10 477	2 130

a/ Excluding Cuba.

/The estimate

The estimate shows that if by some means the purchasing power of exports were to be increased until its unit purchasing power was the same as in 1950-54, the additional income accruing would be equivalent to the deficit on current account envisaged in the projections based on the hypothesis of a 2 per cent increase per capita.

This means that Latin America would be able to pay for projected imports and to service its current investment and debts. In certain conditions, the increase in direct investment and the net inflow of foreign capital would produce sufficient additional resources to enable it to step up its past rate of growth.

It should be stressed that these estimates are based on aggregates for Latin America as a whole, and are merely intended to provide some ideas for quantifying the problems. A more detailed analysis on the same lines would entail a separate examination of each country and export item since, as pointed out before, there are short-term fluctuations in the terms of trade indices, and even more marked variations in the volume of exports.

3. The gap between Latin America's import requirements and purchasing power

The foregoing projections assume a specific rate of import substitution and an economic growth target of 2 per cent per capita.

In order to determine Latin America's foreign trade requirements and to provide some bases for analysing the fundamental aims of foreign policy in the light of the region's development needs, it has been thought advisable to make, for each country, a more detailed study of import demand, the tempo at which import substitution is likely to proceed and the size of the potential deficit in external purchasing power, due allowance being made for the servicing of current investment and debts.

For the purposes of this analysis, it has been assumed that up to 1965 or 1966 the per capita rate of growth will be slightly higher than in the past and that it will remain at around 2 per cent, rising in the second half of the decade to 3 per cent.

A rate of 3 per cent is not within easy reach of the Latin American economies under present internal and external conditions. But it is a reasonable planning objective for the second half of the decade, and cannot be regarded as unduly optimistic if minimum consumption and employment targets are to be fulfilled, considering the present level of living and a population that is increasing at an annual rate of 3 per cent.

What we are attempting to do is to determine the minimum resources required to achieve certain development targets, or, to put it another way, to ascertain the size of the gap between import requirements and purchasing power with a view to establishing the objectives of a national or international policy designed to promote the progress of the developing countries.

4. Import requirements

In view of the different economic growth structures and stages of development reached by the Latin American countries, a technical analysis by country and type of commodities will have to be made in order to calculate import requirements. Imports have therefore been classified in five groups: (a) non-durable consumer goods; (b) durable consumer goods; (c) intermediate goods; (d) fuels; and (e) capital goods.

The functional ratios existing in the last thirteen years between imports of consumer goods and total consumption or domestic income, between imports of fuels and intermediate goods and the domestic product and between capital goods and domestic investment have been worked out for each country. These ratios are expressed in terms of elasticity coefficients that reflect the variations of each of the five categories of imports in relation to the evolution of total consumption, the product, income and domestic investment.

The elasticity coefficients thus obtained are presented in per capita terms in table 41. In some cases, the correlations are not particularly significant as the variables have been affected by such factors as restrictive measures, changes in composition and shortcomings in national statistics.

Nevertheless the comparison yields some interesting conclusions, which are given below.

(a) Fuels

In most countries, fuel imports have increased more rapidly than the gross product. In fact, the coefficients of per capita product elasticity are higher than unity in Brazil, Ecuador, Peru, Uruguay and all the Central American countries. They are lower than unity and influenced by various factors - local production, the tempo of import substitution and changes in composition - in Chile, Colombia and Mexico. Some of these countries do not import much fuel and fuel imports thus carry little weight.

Generally speaking, it may be concluded that import demand for fuels in non-producing countries will tend to expand more than the gross product, thereby bringing pressure to bear on the over-all import coefficient (see table 41).

(b) Intermediate goods

Imports of intermediate goods follow the same behaviour pattern as fuels, despite the substitution process taking place in a number of Latin American countries. Mexico is the only country in which the elasticity coefficients - technically significant - are lower than unity.

Table 41

LATIN AMERICA: ELASTICITY COEFFICIENT OF IMPORTS, BY GROUPS OF PRODUCTS, 1948-1961

Country	Non-durable consumer goods		Fuels		Raw materials and intermediate products		Capital goods	
	r	E ₁	r	E ₂	r	E ₃	r	E ₄
Bolivia	0.39	-0.621 a/	0.78	3.548	0.54	0.900	0.42	0.536
Brazil	0.49	-1.039 a/	0.64	1.148	0.20	0.260	0.14	0.413
Chile	0.68	2.647	0.05	-0.178	0.19	0.669	0.60	1.039
Colombia	0.70	-3.752	0.37	-2.731	0.78	2.141	0.87	1.294
Ecuador	0.84	2.139	0.87	3.467	0.83	2.273	0.89	0.720
Paraguay	0.42	0.757	0.01	0.042	0.13	0.251	0.40	0.610
Peru	0.75	1.586 a/	0.88	4.392	0.97	2.166	0.91	0.923
Uruguay	0.57	-2.170	0.28	2.033	0.48	1.059	0.91	2.901
Venezuela	0.38	-0.153	0.35	-0.949	0.83	0.997	0.86	1.790
Costa Rica	0.80	0.509 a/	0.58	1.819	0.67	2.528	0.93	1.087
Dominican Republic	0.18	1.091 a/	0.15	0.872	0.07	0.355	0.81	1.354
El Salvador	0.87	2.267 a/	0.54	2.208	0.66	3.025	0.85	0.546
Guatemala	0.40	0.834 a/	0.72	1.806	0.65	1.628	0.83	1.283
Haiti	0.74	6.571	0.34	1.719	0.62	4.094	0.44	0.977
Honduras	0.85	2.063	0.53	2.754	0.37	2.852	0.69	0.908
Mexico	0.45	-0.539 a/	0.21	0.711	0.77	0.832	0.16	0.198
Nicaragua	0.95	2.114	0.86	1.514	0.97	2.724	0.87	1.935
Panama	0.41	0.407	0.89	2.696	0.75	1.912	0.78	0.611

Note: r = Correlation coefficient. The E symbols represent the elasticity coefficients between per capita imports of the various types and other per capita variables, as follows:

E₁ = Imports of non-durable consumer goods and private consumption.

E₂ = Fuel imports and gross domestic product.

E₃ = Imports of raw materials and intermediate products, and gross domestic product.

E₄ = Imports of capital goods, and fixed gross investment.

a/ Elasticity coefficient between per capita imports of non-durable consumer goods and per capita gross domestic income.

/While this

While this is also true of Brazil, its coefficient is less valid. In the majority of countries, aggregate imports of intermediate goods have kept pace with or outstripped the growth of the domestic product. The particularly high coefficient for Argentina may be partly a question of deficiencies in industrial production statistics or may be due to limitations imposed by other factors, but, in any case, demand for intermediate goods is known to have increased rapidly in that country notwithstanding import substitution.

(c) Capital goods

In the last thirteen years imports of capital goods increased on a par with or more rapidly than domestic investment in half the Latin American countries. Particular circumstances, such as changes in investment composition, import controls and even statistical shortcomings detract from the significance of the coefficients in some countries. Moreover, it is clear that the import substitution process in Brazil and Mexico is already having an effect on imports of capital goods there.

The high import content of domestic investment means that imports of capital goods would increase rapidly if the product's rate of growth were accelerated.

5. Total import requirements and potential deficit

(a) On the assumption that import demand will continue as before

On the basis of the foregoing elasticity coefficients, and in some cases, of input content coefficients, an estimate has been made of Latin America's import requirements and potential deficit should the per capita economic rate of growth rise to 3 per cent (or 6 per cent over-all) during the remainder of the present decade and should import demand continue as before (see table 42). Import requirements would climb from 8,000 million dollars in 1960 to 11,500 million in 1966 and to 14,000 million dollars in 1970. The average import coefficient would tend to increase from 11.2 to 12.0 per cent. Demand for capital goods, intermediate goods and fuels would all play an important part in determining this increase, but more especially the demand for capital goods.

The increase in imports of capital goods is seen to depend on replacements and on the amount by which production capacity would have to expand to raise the average over-all growth rate of the domestic product to 6 per cent from 1965 onwards. On the other hand, imports of fuels and intermediate goods would be able to keep up with this rate of growth because of their high elasticity.

The group of countries which previously had a relatively open growth structure will, according to the projection, tend to maintain the same pattern of behaviour as in the last thirteen years. Their total

Table 42

LATIN AMERICA: a/ PROJECTIONS OF IMPORTS AND OF THE POTENTIAL DEFICIT ASSUMING A 3 PER CENT GROWTH RATE IN THE PER CAPITA GROSS PRODUCT AND CONTINUATION OF THE PAST TREND IN THE DEMAND FOR IMPORTS

(Millions of dollars at 1960 prices)

Year or period	Income from exports of goods and net tourist trade	Expenditure			Deficit on current account	Amortization of existing debts <u>c/</u>	Deficit on current account and amortization
		<u>Cif.</u> imports <u>b/</u>	Profits and interest on foreign investment and loans	Total			
1959	7 980	7 600	1 070	8 670	-690	-1 070	-1 760
1960	8 310	8 130	1 170	9 300	-990	-1 150	-2 140
1961	8 530	8 300	1 260	9 560	-1 030	-1 140	-2 170
Average 1959-61	8 280	8 010	1 170	9 180	-900	-1 120	-2 020
Projections							
1966	9 960	11 450	1 390	12 840	-2 880	-790	-3 670
1970	11 280	14 170	1 430	15 600	-4 320	-390	-4 710

a/ Excluding Cuba.

b/ Including net services.

c/ Tentative estimate.

volume of imports, while somewhat smaller than that of the other groups, none the less has a bearing on the estimate of total requirements.

On the assumption that exports will increase at an annual rate of 2.7 per cent, the potential deficit on current account would be more than 2,800 million dollars by 1966 and 4,000 million by 1970. These figures represent the gap between potential import demand and commitments under the head of profits and interest on current investment and loans on the one hand, and exports on the other, not counting the additional funds required to amortize the current debt and to service new investment and additional debts that might be incurred.

(b) On the assumption that import substitution will increase

In order to have a point of reference representing minimum import requirements, an alternative hypothesis have been put forward envisaging an intensification of the substitution trend of the last few years.

Two estimates have been made. One, to be referred to as A, is based on the assumption that the countries where import substitution is making most progress will reduce their import coefficients in the sixties to the same extent as in the past, while those that increased their import coefficients, particularly the Central American countries, Chile, Ecuador and Peru, will maintain them at the same level.

The second estimate, to be termed B, assumes a "normal ratio" between the volume of imports and the volume of the domestic product, in keeping with their current levels in Latin America. In this case, the countries with relatively high import coefficients would tend to reduce them, supposedly by resorting to intensive substitution or restriction, until they had acquired the same structure as the countries where substitution is well advanced (see figure VI). The two estimates should be considered as representative of a process of intensified import substitution or restriction.

Estimate A shows that if exports expand at the rate of 2.7 per cent annually, the gap in transactions on current account would amount to 1,300 million dollars by 1966 and 1,500 million by 1970 (see table 43).

The deficit revealed by estimate B would be 1,600 million dollars by 1966 and 2,500 million by 1970. In both cases the potential deficit would tend to exceed the current level. It should be borne in mind that, as in the case of the other hypotheses, no provision has been made for amortization of current debts or the servicing of new investment and debts.

According to estimate A, the import coefficient would drop from its present level of 11.2 to 10.5 in 1966 and 9.7 in 1970. Its decline is a

Table 43

LATIN AMERICA: a/ PROJECTIONS OF IMPORTS AND OF THE POTENTIAL DEFICIT ASSUMING
A 3 PER CENT INCREASE IN THE PER CAPITA PRODUCT AND EXPANSION
IN THE PROCESS OF IMPORT SUBSTITUTION

(Millions of dollars at 1960 prices)

Year or period	Income from exports of goods and net tourist trade	Expenditures			Deficit on current account	Amortiza- tion of existing debts <u>c/</u>	Deficit on current account and amortization of existing debts
		<u>a/</u> imports <u>b/</u>	Profits and interest on foreign investment and loans	Total			
1959	7 980	7 600	1 070	8 670	-690	-1 070	-1 760
1960	8 310	8 130	1 170	9 300	-990	-1 150	-2 140
1961	8 530	8 300	1 260	9 560	-1 030	-1 140	-2 170
Average 1950-61	8 280	8 010	1 170	9 180	-900	-1 120	-2 020
<u>Hypothesis A</u>							
1966	9 960	9 880	1 390	11 270	-1 310	-790	-2 100
1970	11 280	11 370	1 430	12 800	-1 520	-390	-1 910
<u>Hypothesis B</u>							
1966	9 960	10 220	1 390	11 610	-1 650	-790	-2 440
1970	11 280	12 420	1 430	13 850	-2 570	-390	-2 960

a/ Excluding Cuba.

b/ Including net services.

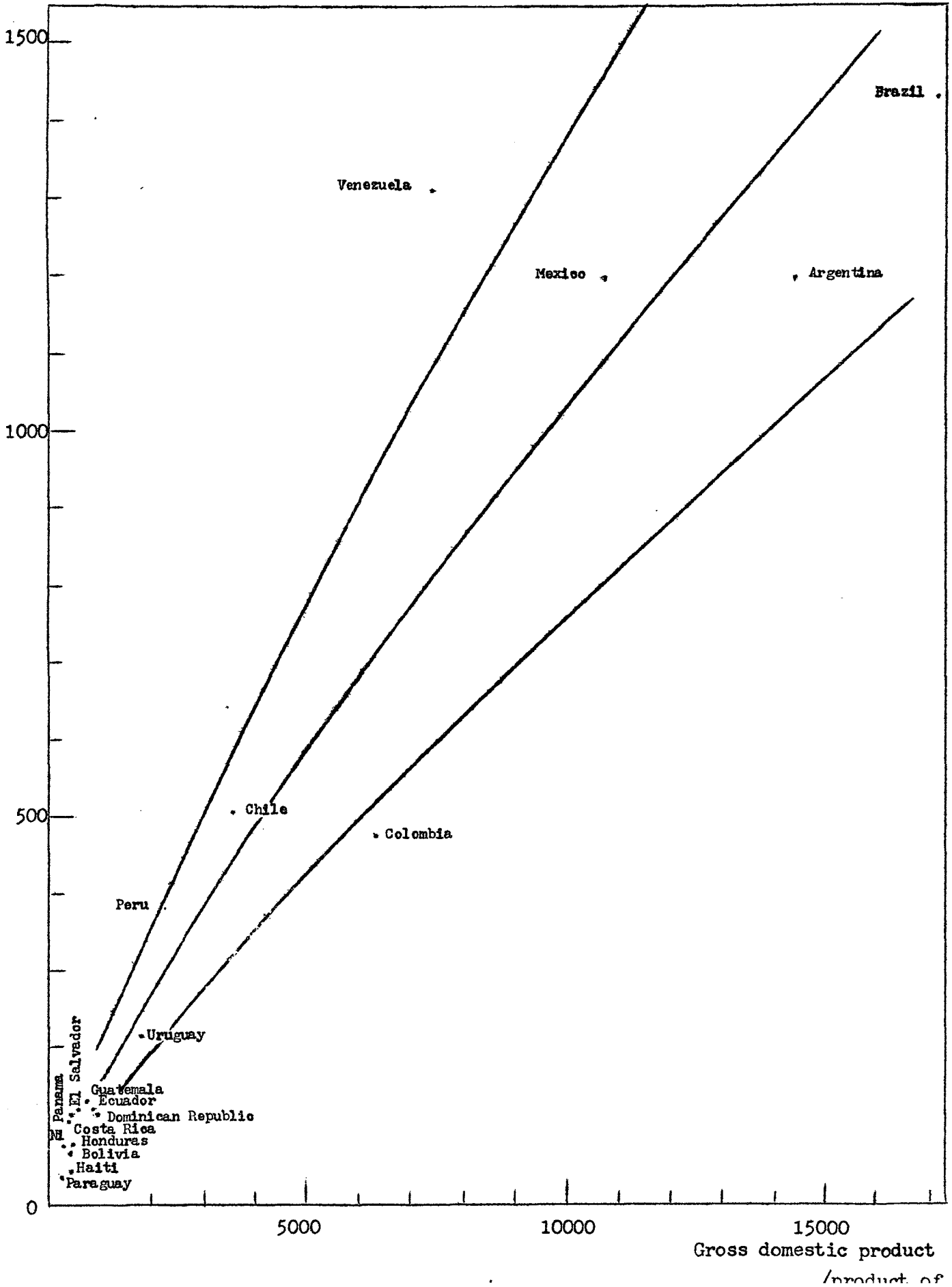
c/ Tentative estimate.

RELATION BETWEEN THE QUANTUM OF IMPORTS AND THE GROSS DOMESTIC PRODUCT

(Millions of 1960 dollars)

Natural scale

Imports



Gross domestic product

(product of

THE UNIVERSITY OF CHICAGO
DIVISION OF THE PHYSICAL SCIENCES
DEPARTMENT OF PHYSICS
530 SOUTH EAST ASIAN AVENUE
CHICAGO, ILLINOIS 60607

Dear Sirs:

I am pleased to inform you that your application for admission to the Ph.D. program in Physics has been accepted. You will be admitted to the program in the fall of 1988. Your advisor will be Professor [Name].

You should contact Professor [Name] at [Address] to discuss the details of your admission and the program. You should also contact the Graduate Office at [Address] for information regarding the application process and the requirements for admission.

I am sure that you will find the Ph.D. program at the University of Chicago to be a most rewarding and challenging experience. We look forward to your arrival in the fall.

Sincerely,
[Name]



product of the trends in the following countries: Argentina, (from 8.3 to 8.0 and 7.7); Brazil (8.4 to 6.9 and 5.6); Colombia (7.6 to 6.3); Mexico (11.1 to 8.5) and Venezuela (17.5 to 12.1). In most of these cases such reductions would be very difficult to achieve, especially as more capital goods would be needed to step up the product's rate of growth.

Estimate B envisages a slower decline in the average import coefficient from 11.2 to 10.5 in the course of the decade. It is, however, expected that Venezuela's import coefficient, which is 17.5 at present, will be drastically reduced to 10.4 by 1966.

It is thus generally apparent from both estimates that during the sixties the total import coefficient would have a limit of approximately 10 per cent, which may be hard to achieve under certain development conditions, particularly if capital goods requirements are taken into account.

To sum up, the difference between requirements and commitments under the head of profits and interest on current investment and debts on the one hand, and projected exports on the other, would fluctuate from 1,500 to 2,900 million dollars by 1966 and from about 2,000 to over 4,000 million in 1970, depending on whether import substitution and restriction increases sharply or whether the same pattern of import demand is maintained as in the past.

The conditions, the profitability and the efficiency with which the Latin American countries would be able to press forward with the process of import substitution and achieve the minimum targets specified will not be dealt with here. In any case, whatever doubts are entertained about these projections, it is obvious that unless Latin America improves its external purchasing power it will not be able to increase its present rate of growth.

The potential deficit revealed in the hypothesis of a 3 per cent rate of growth would have to be covered in some or all of the following ways:

- (a) Increasing the purchasing power of traditional exports;
- (b) Expanding the volume of traditional exports;
- (c) Diversifying exports so as to share in the market for manufactured products;
- (d) Intensifying import substitution within reasonable limits;
- (e) Obtaining adequate international financial co-operation.

E. DEVELOPMENT POLICY, FOREIGN TRADE AND INTERNATIONAL
FINANCIAL CO-OPERATION

1. Need for integrated internal and external
development policies in Latin America

A study of the economic and financial status of the Latin American countries, and an evaluation of their development prospects within the existing world panorama, makes it clear that a deliberately-planned economic development policy must take into consideration, simultaneously and on an integrated basis, both internal and external problems.

The inadequacy of the means projected in the preceding chapter, even for the attainment of growth targets as modest as that of 2 per cent per capita, calls for energetic measures which will enable available production capacity to be fully utilized, the productivity of resources improved and national savings increased, in order to form the additional capacity required for the acceleration of the present rate of income growth.

Even if significant co-operation or financial assistance were obtained from abroad, this alone would not suffice to ensure social and economic development, without the introduction of the basic reforms that ECLA has been insistently advocating.

The acceleration of the rate of development, whether 5 or 6 per cent per annum is the target proposed, fundamentally depends upon the formation of capital whose import component averages 24 per cent for the region as a whole, and in many countries is much greater.

In turn, the raising of income levels and the expansion of internal economic activity necessitate increasing quantities of fuel, intermediate products and certain consumer goods, despite the intensification of the import substitution and restriction processes discussed in earlier pages.

Consequently, during the next five or six years, imports will have to be increased to substantial figures, whose orders of magnitude, as indicated in the projections analysed in the preceding chapter, speak for themselves, whatever may be the objections to analyses of this nature.

It is therefore a wide gap that opens between import requirements and current financial commitments under the head of investment and loans, on the one hand, and, on the other, the capacity for payment that Latin America is likely to have at its disposal, given the circumstances and prospects that may reasonably be foreseen today, unless the external factors limiting the region's economic growth take a turn for the better.

This gap will have to be filled by means of a substantial improvement of external purchasing power, in terms of exports and of international financial co-operation in conditions that represent a less heavy burden than is implied by external financing today.

/No technical

No technical analysis can overlook the fact that there will be a period of transition before internal reforms and a new structure of foreign trade, whose execution depends upon decisions that must be adopted by the industrial countries and the international financing centres, can ensure the new structural conditions required for development. During this interim, there will have to be an increase in domestic investment and in imports from outside the region. To achieve the latter, Latin America's only resources are its traditional products, and the new conception of the means and ends of international financial co-operation that should be developed.

2. Expansion of external purchasing capacity as one of the key objectives of Latin America's development policy

Consequently, investigation of the possible means of improving Latin America's external purchasing power, and the formulation of practical proposals to this end, is one of the substantive topics of the present background document for the United Nations Conference on Trade and Development. In the projections that were analysed in the preceding chapter, one of the hypotheses adopted was that exports would increase by 2.7 per cent annually during the decade under discussion. In connexion with this hypothesis three observations seem very much to the point. In the first place, if the present terms-of-trade position deteriorates, export volumes will have to expand in the same proportion to allow the proposed purchasing-power target to be attained. Secondly, an external purchasing power which increases at the rate indicated will not suffice, especially in the immediate future, to meet Latin America's import requirements, if our countries are to aspire to improve their rate of growth. Lastly, the hypothesis in question may be considered unlikely to be fulfilled, if due account is taken of the limiting factors that have operated up to the present and threaten to become more serious in the future.

(a) Need to improve purchasing power in terms of Latin America's traditional trade items

It has already been pointed out that the factors limiting potential demand for the basic commodities produced by Latin America are of a structural character in some cases, while others - those that have exerted most influence - derive from the policy pursued by the industrial countries, particularly those of Western Europe, which has resulted in the ousting of Latin American products from local and world markets.

Consequently, the Latin American countries' possibilities of increasing their purchasing power on the basis of their primary exports fundamentally depend upon the decisions that the industrial countries are prepared to adopt. This is why at the present time the industrial countries carry a supreme responsibility in relation to the economic development of Latin America and of the developing areas, in general; on their attitude and on their decisions will depend the course that may be taken by Latin America's development and the structure of its foreign trade.

/In addition,

In addition, the incorporation in world trade of developing areas with competing lines of production has not been without its effect. The problem will have to be tackled through the agreements which in one way or another may be concerted with the countries in question.

The problem of basic commodities will be discussed later in the present document in connexion with the traditionally exporter areas and with the expansion of trade to new regions. As regards the former, it is natural that in face of a deteriorating situation, the immediate objective should be to prevent its becoming still worse. Nevertheless, as was shown in the preceding chapter, this is not enough, since existing conditions are already highly unsatisfactory.

The measures suggested in the present document constitute an attempt to shape an integrated policy for producer and for importer countries. Such measures must make for the expansion of exports and the improvement of prices; that is, in the last analysis, they must help to raise the aggregate purchasing power of Latin America's traditional export commodities.

(b) Expansion of trade in basic commodities with other areas

The possibilities of exporting Latin America's traditional products to other areas should be explored with a view to the diversification of markets.

In this context, consideration should be given to other developing countries and to the centrally-planned economies, since the expansion of trade with these areas has been very limited, in relative terms.

There are two essential aspects of the question of the expansion of trade with the centrally-planned economies: one relates to the prospects of these countries opening their markets to Latin America's traditional products, by limiting their own self-sufficiency targets, or relaxing their restrictions on consumption in respect of some of this region's major export items; and the other to the possibility of discovering formulas for institutional arrangements by virtue of which trade can be carried on despite the differences between the economic systems of the areas concerned. A point of special importance is that negotiations would be greatly facilitated and trade encouraged were the centrally-planned economies to establish transferability of balances within their own area and, eventually, with other parts of the world.

Naturally, primary-commodity trade with developing areas encounters insurmountable difficulties in respect of some competing lines of production or of items to which local protection is accorded; it is clear, however, that possibilities of speeding up such trade would exist in relation to important basic commodities, if the purchasing power of the areas in question increased.

3. Need for diversification of Latin America's export trade through the incorporation of new items

The only short-term means of bettering its position that Latin America has at its disposal is to achieve improvements, directly or indirectly in the realm of its traditional export commodities which would represent relatively substantial volumes of additional purchasing power. With the passage of time, however, structural factors will once again come into play, and will tend to keep the formation of external purchasing power below the level required for development. Latin America will therefore have to diversify its export trade by introducing new items.

To obtain sanction for measures and conditions essential to the achievement of this diversification must be another of the fundamental objectives pursued at the United Nations Conference on Trade and Development.

The process of diversification should be conducted on a complementary basis and along several lines, namely: (a) by increasing the degree of industrial processing of primary commodities for export; (b) by incorporating in the primary commodities category new items in respect of which Latin America enjoys competitive advantages; and (c) by contributing to world market supplies of manufactured goods.

The new export lines should be considered in relation both to the industrial countries with whom traditional trade links are maintained and to the other areas represented by the centrally-planned economies and by other developing areas.

A new "export consciousness" will have to be developed and a consistent policy formulated and put into effect within the Latin American countries, and, at the same time, as far as possible, preferential treatment must be obtained from the industrial countries and the other areas, or appropriate agreements established with a view to attainment of the objectives of such a diversification policy.

Chapter III (B) of the present document is devoted to the discussion of this question of export diversification.

Special mention must be made of exports of manufactured goods. The analysis formulated in chapter III (C) of the present document shows that Latin America is capable of developing competitive advantages on the basis of which it could expand its trade in such items. What is asked of the industrial countries in the way of concessions or preferential treatment is very little if their levels of production and income are taken into account, but the gain to Latin America over a possibly short period of time would be relatively significant from the standpoint of strengthening its external purchasing power and enabling it to cope with its import requirements at the level of a less insecure and vulnerable foreign trade structure.

In chapter III (D) specific proposals are analysed which might constitute the policy objectives to be discussed at the Conference in this context.

4. Immediate and medium-term objectives for development and foreign trade policy

In short, the suggestion formulated in the present document is that the industrial countries with higher income levels should take part in the formulation of an international policy to promote the economic and social development of the Latin American countries and of developing areas in general, by means of an expansion of foreign trade channelled through a structure designed to serve the interests of all with greater efficiency.

The end pursued is that these countries, adopting wider views and aims, should take the decisions that are needed if foreign trade is to cease constituting a bottleneck in relation to our economic growth and once again become an instrument for the development of countries with low income levels, in accordance with a conception appropriate to present world circumstances and prospects.

It is patent that the policy followed by the financial and industrial centres is far from conducive to the optimum utilization of resources, and that this redounds to the immediate and considerable detriment of countries with low levels of living whose trade has hitherto specialized in primary lines of production. On the other hand, whatever increment in the purchasing power of the developing countries was achieved in one way or another would be increasingly used to buy capital goods and intermediate products from the industrial countries.

In the immediate future, the Latin American countries, like the other developing areas of the world, must depend upon their traditional export commodities, and it is on the basis of these that they must increase their purchasing power. The establishment of the practical mechanisms of an international policy with this aim in view constitutes an objective whose attainment is a matter of pressing necessity.

Part of the additional purchasing power acquired would be immediately earmarked in the developing countries for the investment needed to effect readjustments in specific branches of primary production, while their foreign trade was being gradually diversified.

5. Co-operation and financial assistance for developing countries

In so far as the structure of the world economy precludes the development of a foreign trade capable of satisfying the requirements of developing countries for the purposes of attaining satisfactory rate of growth, it will be necessary to devise appropriate mechanisms for a practical system of co-operation and financial assistance that will help to close the gap between the import requirements and the purchasing power of the developing countries in question. In any event, such assistance will be indispensable to help these countries through a transition period.

/The study

The study of the region's financial status in the present document shows that the balance-of-payments positions of the Latin American countries have reached a crisis which will become still more acute as a result of the magnitude of forthcoming commitments under the head of interest and amortization payments on outstanding debts, in the case of many countries in the region. Various considerations and circumstances lead to the conviction that the gap cannot be closed on the basis of direct investment alone; nor is it conceivable that the Latin American countries would be in a position to cope with further amortization and interest commitments deriving from new debts. Consequently, whatever increased external financing is provided will have to be arranged on a basis of deferring and reducing interest and amortization payments until the transition period is over.

In this field, international financing institutions and foreign governments should participate in setting up a consistent system, such that international action is geared to the establishment of stable economic and financial conditions whereby countries with low income levels may be enabled to attain minimum development targets.

It is in this connexion that the present document suggests to the Conference on Trade and Development, in essence, the determination of a foreign trade and financing policy which may become the instrument of the economic development of those two-thirds of the world's population that enjoy not more than one-fourth of total income.

It is not a matter of agreeing merely on pacts or measures relating to this or that group of commodities; nor would the problem of the developing countries be solved by transitory assistance, however generous, because at most such aid would only alleviate conjunctural tensions. On the contrary, this is an opportunity to reach agreement on basic measures which will present the developing countries with the new world picture to which reference has constantly been made; and in this context everything must depend, in the last analysis, upon the decisions that the countries with higher income levels are prepared to adopt.

The first part of the report deals with the general situation of the country and the progress of the work. It is followed by a detailed account of the various projects and the results achieved. The report concludes with a summary of the work done and the prospects for the future.

The second part of the report deals with the financial aspects of the work. It gives a detailed account of the income and expenditure of the organization and shows how the work has been financed. It also discusses the financial position of the organization and the measures taken to improve it.

The third part of the report deals with the administrative aspects of the work. It gives a detailed account of the organization of the work and the methods used to carry it out. It also discusses the personnel of the organization and the measures taken to improve their efficiency.

The fourth part of the report deals with the results of the work. It gives a detailed account of the progress made in each of the various projects and the results achieved. It also discusses the factors which have influenced the progress of the work and the measures taken to improve it.

Chapter II

THE MAIN OBSTACLES TO AN EXPANSION OF LATIN AMERICA'S FOREIGN TRADE

A. GENERAL CONSIDERATIONS

The foreign trade problems confronting Latin America and their effect on the rate of growth have been described in general terms in the preceding chapter. Let us now consider more carefully the obstacles which have been largely responsible for the adverse trends in the external sector. More specifically, let us analyse the foreign trade policy of the main areas and their effect on Latin America's traditional trade, the position of the chief traditional export commodities, the difficulties and limitations affecting the export of manufactures and the imbalance in the foreign trade of invisibles. Lastly, an over-all evaluation will be attempted of some of the principal changes which have occurred in Latin America's foreign trade as a result of these factors.

In the present analysis of Latin America's foreign trade problems, particular attention is paid to factors on the demand side. Those relating to the supply side are considered only with respect to specific items, not because of any desire to under-estimate their importance but merely because their solution depends more on the internal decisions of each country or of the region as a whole and less on decisions taken at the international level, although these may facilitate the adoption of internal decisions and ensure their effectiveness.

B. THE TRADE POLICY OF THE MAJOR AREAS OF THE WORLD AND ITS EFFECT ON LATIN AMERICA'S TRADITIONAL TRADE

A broad study of the foreign trade policy applied by the principal industrialized centres reveals that its more important characteristics are: 1. a desire to achieve a high degree of fluidity in respect of reciprocal trade in manufactured products, fuel and basic raw materials for industry; 2. discriminatory treatment and high internal taxes on tropical agricultural commodities in some European countries and liberal treatment of these same commodities in the United States; 3. a generally restrictive policy on temperate agricultural commodities both in the United States and in Europe, although the methods applied are not the same.

As far as the countries with centrally planned economies are concerned, their development plans have resulted so far in a policy of import restriction on a number of consumer goods of concern to Latin America, although there has recently been some indication of a possible change in this policy.

/The complex

The complex mechanisms and methods through which these trade policies are applied preclude further generalizations; a more detailed study must therefore include specific references to each of the areas which have a major impact on world trade. This is done in the sections below, except for the questions of trade with the centrally planned economies, which is taken up in other chapters of this study.

1. The foreign trade of the United States

A study of the effect of United States policy on Latin America's foreign trade will show that the measures applied to agricultural production are clearly the main factor. These measures have produced major changes in the relative position of these countries which have traditionally had a share of the trade in certain products, particularly temperate agricultural commodities.

The system of price supports - initiated immediately after the Depression - has led to a considerable increase in output. Production rose to peak levels which are still being maintained in spite of the accumulation of stocks. Subsidies, for their part, have increased the flow of exports from the United States and have enabled them to compete on advantageous terms against exports from the less developed areas. United States exports of a group of agricultural commodities consisting of grains and grain products, vegetable oils and fats, oilseeds, edible animal fats and oils, unprocessed farm products and cotton - have increased in value from an annual average of 425 million dollars in 1936-1940 to over 2,800 million dollars in 1956-60; in 1960 they amounted to 3,350 million dollars, or 16.5 per cent of total United States exports (see table 44).

The incentives provided by the direct subsidies to agriculture and to exports have, of course, been largely responsible for the sharp rise in United States exports of agricultural commodities. In 1960 these subsidies amounted to nearly 4,700 million dollars, and were only slightly below that figure in 1961 (see table 45). Of major importance, too, were United States exports of agricultural commodities through non-commercial channels, chiefly in conformity with Public Law 480 of 1954. ^{1/}

^{1/} Public Law 480 (1954) declares it to be the policy of Congress "to expand international trade among the United States and friendly nations, to facilitate the convertibility of currency, to promote the economic stability of American agriculture and the national welfare, to make maximum efficient use of surplus agricultural commodities in furtherance of the foreign policy of the United States, and to stimulate and facilitate the expansion of foreign trade in agricultural commodities produced in the United States by providing a means whereby surplus agricultural commodities in excess of the usual marketings of such commodities may be sold through private trade channels, and foreign currencies accepted in payment therefor. It is further the policy to use foreign currencies which accrue to the United States under this Act to expand international trade, to encourage economic development, to purchase strategic materials, to pay United States obligations abroad, to promote collective strength, and to foster in other ways the foreign policy of the United States." (Section 2 of Public Law 480, 83rd. Congress.)

Table 44

UNITED STATES: EXPORTS OF SELECTED AGRICULTURAL COMMODITIES, 1936-1960

(Millions of dollars)

Product	Average					1957	1958	1959	1960
	1936- 1940	1941- 1945	1946- 1950	1951- 1955	1956- 1960				
Grains and preparations	105	174	1 205	1 143	1 416	1 370	1 297	1 420	1 650
Vegetable oils and fats	8	45	77	119	211	218	185	212	200
Oil-seeds	4	6	39	132	272	245	217	318	361
Animal oils and fats, edible	17	107	84	91	68	77	54	63	63
Dairy products	8	182	201	94	112	121	101	96	87
Cotton, unmanufactured	<u>283</u>	<u>152</u>	<u>674</u>	<u>761</u>	<u>778</u>	<u>1 059</u>	<u>661</u>	<u>452</u>	<u>988</u>
A. Sub-total	425	666	2 280	2 340	2 857	3 090	2 515	2 561	3 349
B. Total United States exports	3 167	9 922	11 673	15 196	19 019	20 671	17 745	17 438	20 300
A as percentage of B	13.4	6.7	19.5	15.4	15.0	14.9	14.2	14.7	16.5

Source: Statistical Abstract of the United States, 1961.

Table 45

UNITED STATES: SUBSIDIES FOR AGRICULTURE AND FOR EXPORTS OF AGRICULTURAL COMMODITIES, 1954-1961

(Millions of dollars)

	1954	1955	1956	1957	1958	1959	1960	1961
Agriculture	540	1 075	1 846	3 564	3 242	3 484	3 568	3 433
Commodity Credit Corporation, change in value of agricul- tural stocks	<u>1 700</u>	<u>1 686</u>	<u>1 577</u>	<u>231</u>	<u>510</u>	<u>740</u>	<u>1 120</u>	<u>895</u>
Total	2 240	2 761	3 423	3 795	3 752	4 224	4 688	4 328

Source: Statistical Abstract of the United States, 1961, p. 371.

The volume of commodities exported under these conditions in the financial year 1961-62 represented nearly 1,600 million dollars or 31 per cent of current United States agricultural commodity exports (see table 46). Ratios fluctuated widely in that financial year depending upon the commodity concerned - from 23 per cent for maize and 24 per cent for cotton to 29 per cent for edible vegetable oils, 44 per cent for rice and 70 per cent for wheat.

The agreements reached as of 30 June 1962 under the provisions of Law 480 represent about 10,850 million dollars, of which 7.7 per cent concern exports to Latin America itself. For a single item - wheat - these agreements involve over 67 million tons, or two and a half times the total volume of Latin America's exports for the period 1954-1962, which is approximately when the agreements were reached. Payment is made in the currency of the country of destination, with credit facilities for as long as thirty years and subsidies of up to 60 per cent of the value of the exports. 2/ It is therefore quite clear that these transactions have severely reduced Latin America's prospects for a share in the expanding world market for these commodities. This in no way minimizes the importance of the aid which these transactions represent for some developing countries, including those in Latin America.

Special protection is also granted to local sugar producers. The United States is the world's largest sugar importer and under its protective measures local producers are assured of 50 per cent of the domestic market, secure from foreign competition and at compensatory prices. Imports are subject to quantitative restrictions based on two types of quota: 1. by country, with preferential quotas granted to the Philippines and the Latin American countries; 2. the global quota, designed to meet consumption deficits by purchases on the world market. The global quota is subject to variable import duties (similar to the EEC's "Variable levies") which absorb differences between the domestic price in the United States and the world market price. The country quotas, on the other hand, are subject to lower taxes (a fifth of those levied on the global quota) which in practice enable the countries concerned to obtain a higher net price than is paid for sugar imported under the global quota. Spurred by these incentives, local beet production rose by some 50 per cent during the past fifteen years. Even though Latin American exports are granted preferential treatment, it must be pointed out that quantitative restrictions and discriminatory measures reduce the prospects for sugar exporters wishing to trade in the United States market.

The United States is also the world's largest importer of red meat. However, Latin America's share of this market is very small in view of the restrictions imposed on health grounds. On the other hand, there has been a considerable increase in United States imports of meat from Australia

2/ Message from the President of the United States, June 30, 1962, Washington, p. 6.

Table 46

UNITED STATES; EXPORTS OF AGRICULTURAL COMMODITIES UNDER PUBLIC LAW 480,
FISCAL YEAR 1955/62

(Millions of dollars)

Type of export	1954/55 to 1958/59 (five years)	1959/60	1960/61	1961/62	1954/55 to 1961/62 (eight years)
Total, Public Law 480	5 059	1 143	1 371	1 572	9 145
Mutual Security exports	1 636	167	186	74	2 063
Current exports of agricultural commodities	<u>12 395</u>	<u>3 207</u>	<u>3 389</u>	<u>3 493</u>	<u>22 484</u>
	19 090	4 517	4 946	5 139	33 692
Exports under Public Law 480 as percentage of total United States exports	26	25	28	31	27

Source: Sixteenth Semiannual Report on Public Law 480, Washington, 1962.

/and New Zealand,

and New Zealand, countries in which health problems do not arise and whose flow of exports is being diverted from the United Kingdom to the United States market.

The combined effect of the measures referred to above - coupled with factors of a different type - may be seen from the relative position of Latin America and North America - including Canada, because of the type of data available - in the world's exports of the principal temperate agricultural commodities (see table 47).

There have recently been some changes in this policy, designed to reduce incentives to agricultural output in the United States through restrictions on acreage placed under seed and lower support prices. ^{3/} The United States, moreover, consults the exporter countries concerned whenever it must sell its surplus in their areas of influence. However, there is some difficulty in forecasting the extent to which these changes may reverse the conditions adversely affecting Latin America's prospects, particularly in view of the high prices prevailing on the United States market and the possible effect on these prices of diminishing inventories and the recent increase in trade between the United States and the countries with centrally-planned economies. Moreover, the intensive campaign undertaken by Uruguay and Argentina against foot-and-mouth disease may lead shortly to a reopening of the United States market for Argentine meat.

With respect to raw materials and fuels, United States trade policy has been generally favourable. However, an increase in Latin American exports to the United States is being presented by tariffs and import quotas designed to protect domestic production, particularly of petroleum and copper.

For petroleum, existing provisions are more liberal for neighbouring sources of supply (Mexico and Canada) than for other exporters. Moreover, import quotas are adjusted on the basis of the output of United States oil wells. Many import regulations derive from the peculiar, highly monopolized, organization of the international petroleum market.

The different customs tariffs applied, depending upon the stage of processing of the raw materials concerned, also have a major impact on Latin America since they discourage the area from developing its own processing facilities and from engaging in any activity designed to export raw materials in more advanced stages of processing, which would help to increase the value of its raw materials exports. This problem will be dealt with in greater detail in other sections of the present study.

2. The trade policy of the European Economic Community

The agricultural policy of the countries members of the European Economic Community - Belgium, France, the Federal Republic of Germany, Italy, Luxembourg and the Netherlands - has been generally characterized

^{3/} In the case of wheat, for example, the support price to be applied in the year 1963-64 represents only 50 per cent of parity.

Table 47

NORTH AMERICA AND LATIN AMERICA: EXPORTS OF SPECIFIC
COMMODITIES AS A PERCENTAGE OF
WORLD EXPORTS, 1934-1938,
1950-52 AND 1959-61
(Percentage)

Item	North America			Latin America		
	1934- 1938	1950- 1952	1959- 1961	1934- 1938	1950- 1952	1959- 1961
Wheat	36	75	62	24	10	6
Barley	15	45	50	14	8	4
Maize	8	51	53	65	26	20
Cottonseed and oil	1	35	67	19	12	6
Linseed and oil	-	22	38	71	52	49

Source: Commodity Survey, 1962, page 11, table 3.

/by a

by a desire to achieve self-sufficiency in temperate agricultural commodities and by restrictions and discriminatory measures in favour of associated African territories with respect to tropical commodities. The aim of achieving self-sufficiency in temperate commodities is not new since it was already present well before the establishment of the European Common Market for reasons related to the balance of payments problems of the countries concerned. Although these problems had been solved by 1950, the objectives set forth in the Treaty of Rome provided further justification for the self-sufficiency which the signatory States are attempting to achieve.

The specific measures into which their policies have been translated vary widely, depending upon the type of commodity, the importing country's own agricultural production and other factors. A detailed examination is therefore essential in order to indicate clearly the characteristics and scope of each system.

Tropical commodities have been dealt with comprehensively in studies undertaken by different international organizations, particularly GATT and FAO. Here, the chief obstacles to Latin American trade are high internal duties and charges, high distribution costs for these commodities in EEC countries, and the preferential treatment enjoyed by imports from associated African countries.

The influence of first factor mentioned has been particularly strong, as may be seen by comparing the unit import value of each commodity with the price actually paid by the final consumer: for coffee, the average import price is 23 to 48 per cent of the retail price, the ratio varying between 38 and 45 per cent for bananas and only 9 to 22 per cent for cacao. In other words, the European consumer pays from two to ten times the import price for these commodities. Such high surcharges, even if partly explained by the cost of processing prior to distribution to the consumer, must obviously reduce the demand for these commodities in the markets of the European Economic Community.

A few figures will help to show how far these differences are due to internal charges on the commodities concerned. For example, in 1960 and 1961 total duties and charges levied by EEC countries on Latin American coffee amounted to nearly 700 million dollars, whereas the income received by the supplier countries (in terms of the f.o.b. value of their coffee exports) was only 600 million dollars.^{4/} (See table 48.)

High distribution costs for tropical commodities in European Common Market countries have also had a considerable influence. For instance, these costs in Germany and Italy are 280 per cent and 190 per cent higher,

^{4/} According to the Executive Director of the International Coffee Organization, in 1962 the Federal Republic of Germany alone collected 190 million dollars in domestic taxes and coffee. Import duties of IDM per kg. produced another 50 million dollars. Thus, duties and charges on coffee in Germany in 1962 amounted to a total of 240 million dollars. (The Times, London, 27 August, 1963.)

Table 48

LATIN AMERICA: EXPORTS OF COFFEE TO THE EUROPEAN ECONOMIC
COMMUNITY, 1960 AND 1961

Destination	Volume (tons)	Fiscal charges (in dollars)	
		Per kg	Total
Federal Republic of Germany	354 570	1.38	489 306 600
France	87 534	0.42	36 789 400
Netherlands	102 294	0.01	1 023 000
Italy	140 418	1.10	154 459 800
Belgium and Luxembourg	82 956	0.09	7 466 000
<u>Total</u>	<u>767 832</u>		<u>689 044 800</u>

Source: Exports: table 29, Boletín de Estadística de la Federación Nacional de Cafeteros,

Nº. 38, Bogota, July 1962;

Fiscal charges: Survey of the Brazilian Coffee Institute.

/respectively, than

respectively, than in the United States, which seems to indicate that their high level can hardly be attributed to the cost of processing. Similarly, it is estimated that in 1962 the distribution costs referred to amounted, in the EEC countries, to 650 million dollars for 670,000 tons of coffee, the f.o.b. export value of which was 500 million dollars.

The preferential tariffs granted by the EEC countries to their overseas associates - 9.6 per cent for coffee and 5.4 per cent for cacao - are not yet in force but may be expected to channel demand towards African exports. What is most important, however, is that France has imposed quantitative restrictions on tropical commodities from outside the franc area and pays less for them. A common external tariff of 20 per cent is applied to bananas, but Latin American bananas are denied access to France and Italy, which obtain their supplies from their former colonies. The Federal Republic of Germany, for its part, avails itself of an exception authorized by the Treaty of Rome and until the African territories are in a position to meet its quantitative and qualitative requirements the Federal Republic of Germany will import, free of duty, about 450,000 tons a year from its traditional Latin American suppliers.

The restrictions imposed by the EEC on temperate agricultural commodities are both quantitative and in the form of limitations applied through the price mechanism.

An example of the former is beef, which is subject to a quota of 22,000 tons and a tariff of 20 per cent. While additional quotas are sometimes authorized, particularly for the Federal Republic of Germany and Italy, official representations made to the Community by Argentina and Uruguay have failed to bring about more liberal treatment for beef.

Cereals, for their part, are marketed in the EEC under a system of price supports, prices being provisionally fixed for each individual member country until they are equalized in 1970, when all obstacles to the movement of these commodities within the Community will have disappeared.^{5/} While there are no quantitative restrictions under the present system, access to the markets of member countries is in fact governed by variable levies, designed to raise the final cost above the local production price. These variable levies are slightly higher than the existing difference between the c.i.f. price of a specific cereal on the so-called "international" market and the corresponding domestic support price. Member countries can limit their price support to a specific quantity produced domestically. For instance, France has limited its support of soft wheat production in 1962-63 to 7.2 million tons.

The size of these variable levies varies from country to country and from product to product. For soft wheat, for example, they amount to 58 per cent of the c.i.f. price in the Netherlands and 102 per cent in the

^{5/} The European Economic Community is now studying a French proposal to apply uniform prices within the Community as from 1 July 1964.

Federal Republic of Germany, with ratios between these two in France, Italy and Belgium. For maize, the ratio varies from 7 per cent in Italy to 97 per cent in Germany (for more details and other commodities, see table 49).

Pork, eggs and poultry are also subject to official price schemes and imports are governed by variable levies identical in nature and purpose with those applied to cereals.

In the case of sugar, the Community has been self-sufficient since 1959-60 thanks to high official price supports for sugar beet and to the protection against outside competition provided by the common external tariff of 80 per cent.

As a result of these practices, the prices fixed in the Community for specific agricultural commodities are far higher than world market prices (see table 50).

Tables 51 and 52 provide additional data on the different prices paid in recent years to wheat and meat producers in various countries, which is a further indication of the scope and effect of the policy of subsidies. Suffice it to show, for purposes of illustration, that in 1961, for instance, a wheat-grower in Argentina received 38 dollars per ton of wheat, compared with 65 dollars in Australia, 67 dollars in Canada and the United States, 82 dollars in France and over 100 dollars in West Germany and Italy.

In the case of raw materials and fuels, protectionist or discriminatory measures are not normally applied through the usual instruments of tariffs or quantitative restrictions. However, as pointed out in connexion with the trade policy of the United States, this does not mean that marketing conditions are completely unrestricted or that an adequate share of the market is available to the less developed countries. In addition to the different tariff rates applies to raw materials depending upon their stage of processing - which prevents the developing countries from exporting them in a more advanced state of refining or manufacture - preferential treatment is granted to areas other than Latin America, largely because of the direct investments which some EEC countries have made in certain areas. For example, Belgium imports most of its copper from the Congo (Leopoldville), while Latin America ranks high in United States copper imports. Similarly, in 1961, France imported relatively much less iron ore from Latin America than did Italy.

3. The trade policy of the United Kingdom

The United Kingdom is the world's largest importer of foodstuffs, its annual purchases exceeding 4,000 million dollars, or one-fourth of the world's food imports. Hence, its trade policy is particularly significant in terms of world trade in foodstuffs.

Table 49

AVERAGE SLIDING-SCALE DUTIES APPLIED TO IMPORTS OF GRAINS FROM THIRD COUNTRIES,
AS A PERCENTAGE OF THE CIF PRICE, FROM AUGUST 1962 TO MARCH 1963

Country	Soft wheat	Rye	Barley	Oats	Maize	Sorghum
Belgium	75	30	49	26	47	64
Federal Republic of Germany	111	85	89	63	97	106
France	70	32	41	21	61	79
Italy	94	57	7	4	7	35
Netherlands	68	14	39	26	30	41

Source: FAO, Regional Economic Integration (C.63/10), 12 September 1963, p. 5, table 3.

Table 50

PRICES OF SOME AGRICULTURAL COMMODITIES WITHIN THE EUROPEAN
ECONOMIC COMMUNITY (1961/62 AVERAGES)

(Dollars per ton)

	Wheat	Butter	Beef	Sugar
World market	61.0	673.0	449.0	149.0
Belgium-Luxembourg	96	1 628.0	980.0	251.0
Federal Republic of Germany	110.0	1 586.0	986.0	308.0
France	84.0	1 512.0	907.0	253.0
Italy	108.0	1 359.0	873.0	318.0
Netherlands	86.0	1 012.0	863.0	267.0

Source: Revue du Marché Commun, No. 52, November 1962, p. 423.

Table 51

PRICES PAID TO WHEAT PRODUCERS IN 1959/60

(Dollar cents per kilogramme)

Country	1959	1960	1961
Australia	6.2	6.3	6.5
Federal Republic of Germany	10.1	9.8	10.4
France	7.7	8.1	8.2
Italy	10.4	10.9	10.6
Argentina	3.6	4.5	3.8
Canada	6.1	6.7	6.7
United States	6.4	6.4	6.7

Source: FAO, Production Yearbook 1962.

Table 52

PRICES OF BEEF PER 100 KG LIVE WEIGHT IN THE COUNTRY OF ORIGIN

(1961 dollars)

Country	1961
Argentina	10.82
Australia	45.93 ^{a/}
Canada	46.34
Federal Republic of Germany	58.35
New Zealand	36.07 ^{a/}
United Kingdom	50.53
United States	54.23

Source: Meat, London, 1963.

^{a/} 100 kg. clean carcass meat.

/As in

As in the case of the United States and the European Economic Community, here too Latin America's exports are affected by restrictions and discriminatory measures deriving from domestic agricultural policy and from the preferential treatment enjoyed by the Commonwealth. As a result of these and other factors, Latin America's share of the United Kingdom market is relatively small and is growing smaller.

It should nevertheless be pointed out that notwithstanding the factors mentioned, the policy of the United Kingdom with respect to temperate commodities is less prejudicial to the interests of the Latin American countries than is the policy applied by the United States or the EEC.

Domestic agriculture is protected not through price-fixing, purchases at incentive prices, or taxes which affect the value of imports, but through direct subsidies to producers. The price supports aimed at through these subsidies are applied to livestock (cattle, sheep, goats and pigs) and to other livestock products (eggs, wool, milk) and to wheat, barley, oats, rye, potatoes and sugar beet. Also subsidized are the use of fertilizer and lime, improved farming methods, sanitary measures, etc. The effect of these subsidies will be more readily appreciated when it is realized that they amounted to 959 million dollars during the agricultural year 1960-61.

While the British farmer sells his produce on the domestic market at prices which fluctuate freely and are generally lower than the support price, the Treasury subsequently makes up the difference by granting him additional subsidies. These official British prices are considerably higher than those prevailing in the traditional producer countries. In 1961 they were virtually twice the Argentine price for wheat, over three times for barley and two and a half times for beef cattle.

It should be pointed out, however, that the British scheme is an improvement over the EEC system in one respect: the consumer does not have to pay the high prices guaranteed to the farmer. Hence, these do not have the effect of curtailing demand, unlike schemes which directly affect consumer prices.

With respect to discriminatory measures, the system of preferential tariffs under the Ottawa Agreement (1932) establishes tariffs for commodities produced outside the Commonwealth: 10 per cent ad valorem for wheat flour, barley, rye and rye flour, 20 per cent for tinned meat, 0.75 of a penny per pound of chilled beef and 0.66 of a penny per pound of frozen meat.^{6/} On the other hand, wheat and maize, two of the most important cereals imported by the United Kingdom, are tariff-free.

^{6/} The incidence of the last two tariffs mentioned is relatively low with respect to the c.i.f. value of imports, this being largely due to the increase in the ex-Ottawa price of beef, influenced in turn by the devaluation of the pound sterling from 4 dollars to 2.80 dollars.

The United Kingdom also applies discriminatory measures to some tropical commodities, including bananas, sugar and coffee, in order to give a predominant share of its market to Commonwealth producers. For sugar, preferential treatment amounts to 10 per cent ad valorem; imports from non-Commonwealth countries form a very small share of the total (less than 10 per cent), an insignificant portion of which is supplied by Latin America. Under the Commonwealth Sugar Agreement, Commonwealth exporters are guaranteed a market of 2.5 million metric tons for which the United Kingdom pays the sellers uniform prices subject to annual review. The differences between these prices and the "free market" price (either the London or New York price) have been considerable in past years, sometimes being higher and more recently lower.

With respect to raw materials and fuels, the comments made in connexion with the trade policy of the United States and of the EEC countries also apply to the United Kingdom. While there are no formal restrictions or discriminatory measures, the former are applied through regulations discouraging imports of processed raw materials and fuels, while de facto discrimination is practiced through preferential treatment granted under market arrangements in favour of raw materials and fuels from the Commonwealth, as will be shown in greater detail in later sections.

/C. POSITION

C. POSITION OF THE MAJOR EXPORT COMMODITIES

The earlier sections described in broad outline the trade policy pursued by the major countries in terms of the foreign trade of developing countries. A clear feature of this policy is that it lacks uniformity. While some general traits may be discerned, the treatment and position of each particular commodity may be very different. Hence, the references made should be supplemented by more detailed background data giving a clearer picture of the position of a group of commodities, including the most important from the standpoint of Latin America's traditional trade. With this end in view, tropical commodities, temperate commodities, and raw materials and fuels, should be discussed separately.

1. Tropical commodities: coffee, cacao, bananas

Latin America's exports of coffee, cacao and bananas amounted in 1961 to 1,622 million dollars, or slightly over 18 per cent of the area's total exports. If cotton and sugar - also produced in some developed countries - are added, the value of Latin American exports rises to 2,750 million dollars, or nearly 32 per cent of Latin America's total exports in 1961.

Latin American exports of tropical commodities - particularly coffee, cacao and bananas - are at present directed chiefly to the United States, which in 1961 absorbed Latin American exports in the following percentages: coffee, 58 per cent; cacao, 65 per cent; bananas, 45 per cent. This is largely because of the discriminatory measures applied by some European countries since the Depression. The United States, on the other hand, did not resort to these restrictions and discriminatory measures. In 1961 the EEC countries as a whole absorbed 19 per cent of Latin America's coffee exports, 23 per cent of its cacao exports and 20 per cent of its banana exports, the corresponding figures for the United Kingdom being 1 per cent, 3 per cent and 0.3 per cent respectively. For coffee, the EEC country which has discriminated most severely since the Depression is France. While the Latin American coffee imported by France in 1930-32 represented an annual average of over 80 per cent of its total coffee purchases, Latin America's share in 1961 fell to 23 per cent, French imports having shifted in favour of countries within the franc area.

The sharp drop in Latin America's share of the French coffee market is not due so much to the imposition of tariffs as to quantitative discrimination based on the origin of the commodity. In fact, France has undertaken to purchase 170,000 tons of coffee a year from the franc zone countries and recently signed an agreement with the Ivory Coast for the purchase, at a special price, of 100,000 tons of coffee a year for the next five years. 7/

The position with respect to the other EEC countries is different. Between 1955 and 1961, West Germany, Italy and the Benelux countries increased their total coffee imports by 66 per cent and their coffee imports

7/ Economic Commission for Africa, European Integration and African Trade (E/CN.14/STC/4, 23 August 1962).

from Latin America by 63 per cent. On the other hand, France increased its total coffee imports by 8 per cent during the same period, but its coffee imports from Latin America declined by nearly 19 per cent.

Tariffs were, on the other hand, the decisive method of discrimination practised by the United Kingdom. Latin America's share of this market dropped from 49 per cent in 1930-32 to 27 per cent in 1961, when it imported only 16,400 tons from that area.

The effects of discriminatory measures were no less severe in the case of bananas. Latin America is the chief supplier to West Germany and the Benelux countries but does not export bananas to France and Italy because of the quantitative restrictions imposed by these countries in favour of their overseas associates. Thus, in 1961 France imported all of its bananas from its dependent territories, chiefly Martinique and Guadeloupe, while the bulk of Italy's imports came from Somalia. In the same year 67 per cent of the United Kingdom's banana imports were supplied by the Commonwealth, Latin America's share amounting to some 4,000 tons only (4 per cent of the total) in accordance with the small quota allocated to it. 8/

For Latin America, the quantitative import restrictions imposed by the EEC on bananas during the past few years have been a most alarming experience. The EEC commission concerned authorized the Federal Republic of Germany, as from January 1962, to import bananas free of the existing 6 per cent import tax. As a result Germany imported 353,000 tons of bananas tax-free in 1962. It was subsequently authorized to import another 130,000 tons on condition that 7,000 tons came from the countries associated with the EEC. The same condition was imposed in 1963, except that this time some 50,000 tons had to be bought from EEC associates.

Moreover, the effects of the trade policy pursued by the industrialized countries are reflected not only in the volume of Latin America's exports but also in lower prices for the commodities concerned.

Thus, coffee prices have dropped some 30 per cent during the past few years. This has proved a serious economic loss to most of the Latin American countries, particularly to the small coffee growers in the area. Apart from the general decline in world coffee prices, another anomaly has adversely affected Latin American exports, namely the price subsidies granted to African coffee by France (which paid 697 dollars per ton in 1960), enabling it to compete on advantageous terms with Latin American coffee on the United States market, where it sold at a price some 40 per cent lower (445 dollars per ton). This, together with the increase in the consumption of soluble coffee, explains the sharp improvement in sales of African coffee on the United States market in recent years.

8/ Brazil is not included in the quota but it is not a major banana exporter.

International banana prices are even more variable than coffee prices. In 1960, prices for Latin American bananas were 143 dollars per ton in the United States and 134 dollars per ton in West Germany. At the same time, the price for bananas imported by France from the Cameroons was 186 dollars per ton, and 201 dollars per ton for bananas imported from Guadeloupe. The United Kingdom paid twice as much for bananas from Jamaica as it did for Latin American bananas. Such sharp price variations cannot be attributed to preferential tariffs since these are low (20 per cent in France and a specific charge of 7 shillings 6 pence in the United Kingdom, or about 13.7 per cent) but are mainly due to the system of quantitative restrictions based on the origin of the commodity.

With respect to cacao, prices on the various markets are about the same for cacao of similar quality, although the preferential treatment granted by the EEC to its African associates does, in fact, mean that they receive a higher price. As a rule, prices have dropped sharply during the past few years in view of the increase in production but this trend has recently been reversed because of the reduction in Latin American output. 2/

Merely for purposes of illustration, it might be pointed out that if in 1961 France and the United Kingdom had imported from Latin America the same percentage of their total consumption as in 1930, their additional purchases from that area would have represented, at 1961 prices, a total additional f.o.b. value of some 120 million dollars.

This estimate is based on the following considerations:

(a) Before the franc zone was formed and the United Kingdom resorted to preferential treatment in its coffee imports, Latin America supplied the bulk of the coffee imported by the industrialized countries of Europe;

(b) Subsequently the United Kingdom, and more particularly France, established a system of preferences and encouraged coffee-growing in their colonies with a view to replacing their purchases from Latin America;

(c) Africa's share of the market increased not only in the Federal Republic of Germany but also in other countries which did not resort to discrimination - Sweden, Norway, Switzerland, United States, etc. - although not to the same extent as in France and the United Kingdom.

The same reasoning is valid for bananas. However, the low cost of Latin American bananas precludes competition from Africa or Asia. The opposite is true of Latin American cacao, which costs more than African

2/ Output dropped 6.4 per cent between 1959/60 and 1961/62, according to FAO (Production Yearbook 1962). IA-ECOSOC (Economic and Social Survey of Latin America, 1962) estimates the reduction at 25.1 per cent between 1959/60 and 1962/63. In spite of the discrepancy, both sources agree that output has declined in absolute terms.

cacao, a factor that must be added to the preferential treatment granted in Europe. 10/

Lastly, it should be pointed out that the International Coffee Agreement, in effect for the period 1963/68, may affect the world market conditions described above, through its system of export quotas, adjustable every three months, which cover virtually the entire world coffee market. While it does not contain specific provisions relating to prices, it is hoped that the agreement will help to balance supply and demand and that it will reduce price fluctuations through its system of quotas, permanent consultations among the producers concerned, market studies and its support for abolition of existing restrictions (preferential tariffs, import duties, internal taxes, etc.). The undertaking by exporter countries to adjust their output in order to avoid surpluses - in accordance with targets to be set by common agreement after the agreement has been in force for one year - is expected to introduce a measure of discipline into the coffee trade. So far it has not had any effect on market prices other than to stabilize them at the very low levels they had already reached.

2. Cotton and sugar

Cotton and sugar, unlike the three commodities mentioned above, are exported by both developed and developing countries and, while chiefly of concern to tropical areas, present problems similar to those of temperate agricultural commodities.

Cotton production in the United States, favoured by a policy of subsidies, far exceeds domestic consumption and this leads to the accumulation of surpluses which find their way into the international market, partly through exports effected under the provisions of Public Law 480. These exports, stimulated by subsidies estimated at about 27 per cent of the f.o.b. value, amounted between July 1954 and 30 June 1962 to 7.1 million bales for a value of nearly 1,050 million dollars. Moreover, these sales were not confined to developing countries - there would at least have been some justification for such a policy; on the contrary, many of the agreements were of benefit to countries with a relatively high income. It is estimated that 41 per cent of the cotton exported during the above-mentioned period under Public Law 480 went to countries like France, Italy, Finland and Austria, as well as to Poland and Spain.

The United Kingdom and the EEC countries are not major cotton producers and their cotton imports are not subject to restrictions or discriminatory measures worth mentioning. As a result, Latin America has been able, over the long term, to increase its share of the world

10/ For confirmation, see "The achievement of co-ordination in Latin American trade policy: relations with the European Economic Community", Economic Bulletin for Latin America, Vol. VII, No. 2, Santiago, October 1962, particularly paragraph 84 and table 4 concerning coffee.

cotton market in spite of the problem it faces in competing with the United States, which subsidizes its exports and effects its sales under non-commercial financial arrangements. 11/

Cotton can be grown economically in areas with a cooler climate than is required for coffee, cacao or bananas. However, the developed countries have much less land suitable for cotton-growing than for the production of wheat and even of maize. Thus, the United States is the only cotton supplier among the developed countries, and even there the area suitable for cotton-growing is much smaller than the land available for producing temperate commodities. The absence of restrictions and discriminatory measures in the world cotton trade and the relative lack of land suitable for cotton-growing in the developed countries are the main reasons why Latin America had increased its production and export of cotton in spite of United States cotton policy.

The position with respect to sugar is quite different. United States production being unable to meet the requirements of consumer demand, the difference is met through imports regulated by the quota system designed to facilitate purchases at prices above world market prices so as to reflect the high production costs in the United States. Sugar is thus the only major commodity exported by Latin America to receive preferential treatment in a developed country.

The European Economic Community only occasionally imports sugar, its imports being designed to supplement inadequate supplies due to poor crops, as has happened recently. The United Kingdom, on the other hand, is a major importer but grants preferential treatment to the Commonwealth through purchase contracts specifying volume and prices, which differ from those prevailing on the world market.

Several factors have contributed to the change in sugar marketing conditions during the past few years. In the first place, climatic conditions for beet production were unfavourable in Western Europe and in the countries with centrally planned economies, producing a deficit in areas which are normally self-sufficient or are even exporters. For the 1962/63 crop year, the sharp drop in Cuba's output increased the world sugar deficit. Secondly, the suspension of United States sugar purchases from Cuba led to stronger demand on the free market. These various factors did not all arise at the same time. Loss of the beet crop, for instance, did not take place until trade between the United States and Cuba had been interrupted. In fact, suspension of United States purchases of Cuban sugar was only partial until 1960 and did not become total until after that date; the drop in European production, on the other hand, occurred during the past two seasons (1961/62 and 1962/63). However, sugar prices did not reach a peak until the end of May 1963, this being due to the fact that the

11/ Latin American exports increased from an annual average of 1.7 million bales in 1934-38 to 3.8 million bales in 1961-62, amounting respectively to 12.9 per cent and 25.1 per cent of total world cotton exports.

production shortage has been offset by liquidation of existing stocks. Inventories at the beginning of the 1959/60 season in the major exporting countries amounted to 3.3 million short tons of centrifugal sugar, compared with only 1.6 million tons during the same period in 1962/63.

These various factors were responsible for an unusual increase in the price of sugar, which reached its peak level in the middle of 1963 and has been declining slowly but steadily since. In 1960 the price of raw sugar on the world free market was 3.14 dollar cents per pound, rising to an average of 7.66 cents per pound in the period January-June 1963, with a peak of over 11 cents at the end of May.

The redistribution of United States import quotas stimulated production in several Latin American countries. Latin America (excluding Cuba) produced 7.8 million tons of sugar in 1958 and 8.7 million tons in 1962. However, future growth may be limited by the substantial investment required for new sugar refineries and the fact that current conditions may not last.

A special international agreement also exists for sugar. In force since 1958, the International Sugar Agreement never succeeded in covering even half the world sugar market. While the agreement was to remain in effect until 1963, its provisions were in fact suspended upon termination of existing trade agreements between Cuba and the United States. The sugar agreement, like the coffee agreement, concerned export quotas, including regulation of production, limitations on the size of domestic stocks, etc. The size of the export quotas was adjustable on the basis of price fluctuations within a specific range and the quotas were to be abolished whenever the price exceeded 4 cents per pound. At present the international price is over 10 cents a pound, and the two major importers - the United States and the United Kingdom - whose combined imports constitute more than half the world total, have preferential import arrangements outside the agreement.

3. Temperate agricultural commodities

In 1961 Latin American exports of five temperate agricultural commodities - meat, maize, wheat, linseed oil and wool - totalled slightly over 750 million dollars. While this figure then represented only 8.7 per cent of Latin America's total exports, the commodities concerned play a very important part in the foreign trade of some Latin American countries, representing 60 per cent of Argentina's total exports and 80 per cent of Uruguay's.

Of the commodities mentioned, wheat has been in the most difficult position as a result of the self-sufficiency policy of the developed countries and their growing role - particularly in the case of the United States - as exporters of wheat under non-commercial price and financing conditions. Thus, while the United States share of world trade in wheat rose from 7.3 per cent to 44.9 per cent between 1934-38 and 1961-62, Latin America's share during the same period dropped from 19.9 per cent to 5.4 per cent.

/For the

For the financial year 1960-61, United States exports of wheat - or more accurately of wheat and wheat flour expressed in terms of wheat - sold under government programmes amounted to 12.3 million tons, or 70.6 per cent of the country's total wheat sales. Moreover, as in the case of cotton, sales under non-commercial conditions were not confined to developing countries but included a large share (slightly over one-third) to developed countries.

Apart from the United States, the policy of price subsidies to local producers in other developed areas has led to chaos on the world wheat market. France, whose internal production costs are 19 per cent higher than the world market figure, exported 1.3 million tons in 1961-62. The Federal Republic of Germany, where prices are 44 per cent higher than the price of Argentine wheat delivered to a European port, exported 1 million tons of wheat flour, including sales to Bolivia and Paraguay, thanks to large subsidies.

The United Kingdom imports most of its wheat from the Commonwealth and Latin America's share of this market is under 5 per cent of total imports, virtually the same as its share of the EEC market (4.5 per cent).

The provisions of the International Wheat Agreement in force for the period 1962-65 have not been effective enough to cope with situations as complicated as those just mentioned. If the Agreement is to cover most of the trade in wheat, its operative provisions concerning rights and obligations will have to be sacrificed, particularly those relating to purchases of specific quantities at pre-established minimum prices. At the same time, the importance of the agreement has been gradually reduced by the predominant position of the two chief exporters - the United States and Canada - and the pressure of surpluses which tend to increase transactions under special conditions as regards price and currency of payment.

The situation is not as serious with respect to maize, although there are still some problems. The tendency of the developed countries to become self-sufficient in meat has increased their fodder import requirements and this has broadened the market for maize. Thus, Argentina has substantially increased its maize exports during the past five years and in 1961 it exported 3 million tons. However, this figure is still well below the 5 million tons it exported annually in 1937-39. The relative position of Latin America as a whole has also worsened considerably, its share of the world market having dropped from 55 per cent to 25 per cent between 1937-39 and 1960, while the United States increased its share from 17.1 per cent to 49 per cent during the same period. The United Kingdom imports barely 3 per cent of its maize from Latin America, its chief supplier being the United States, which is also the main source of supply to the EEC. Latin America's share of the EEC market is slightly over 28 per cent. Moreover, price variations are narrower than for wheat although the level will probably remain relatively low in order to compete with other fodder used for cattle feeding in the developed countries.

/Latin America

Latin America is in a somewhat better position on the world meat market. Argentina continues to be the world's main supplier of beef, followed by Australia and, more recently, by France. In 1961 France exported over 100,000 tons of beef, which is one-third of Latin America's total exports. Since the production price of meat in France is twice as high as in New Zealand and very much higher than the price of Argentine beef delivered on the London market, the situation can only be explained by the policy of discrimination practised within the EEC to the detriment of the developing countries and their prospects for a larger share of the export trade.

The geographical distribution of the trade in meat is quite different from that of the tropical commodities. Latin America's share in the EEC countries is about 17 per cent, and it continues to provide 28 per cent of the United Kingdom's imports and less than 15 per cent of the meat imported by the United States (mainly from Mexico and Nicaragua). Latin America's small share of the United States market is due not to protectionist measures (the United States having increased its imports from Australia and New Zealand), but to health restrictions against foot-and-mouth disease, which affect more particularly exports from Argentina, Uruguay and Paraguay.

The restrictions placed in the United States on meat from Argentina, Uruguay and Paraguay may eventually be lifted, particularly in view of the successful results achieved in the campaign to eradicate foot-and-mouth disease. Latin America's share of the United States market could then be expected to increase. On the other hand, the position is much more serious with respect to the EEC countries. The draft regulation on beef includes points which can only arouse misgivings, particularly in view of the intention, sometimes expressed, that the EEC shall in time become virtually self-sufficient. Moreover, the direct and indirect subsidies granted to meat production and particularly the restrictions placed on imports have helped to keep world meat prices low. Moreover, the uncertainty created by sporadic access to this market, and at unsatisfactory prices, discourages the Latin American countries from adopting a vigorous production policy designed to increase the quantity of meat available for export.

Lastly, the two remaining commodities - wool and linseed oil - are subject to much fewer restrictions since they are industrial raw materials and, as such, are granted generally favourable treatment under the tariff policy of the developed countries. While in 1961 wool represented only 2.9 per cent of Latin America's total exports, it was an important export item for Argentina (15 per cent of its total) and particularly for Uruguay (63 per cent). There is no danger of the EEC countries attempting to become self-sufficient in wool as they only produce 9 per cent of their requirements. Moreover, man-made fibres have not affected wool's share of total world fibre consumption, which remains at 10 per cent.

As a rule, wool may be imported freely into the developed countries. The only restrictions in force are applied by Portugal (import licenses, discriminatory measures and additional charges), Denmark (import licenses and discriminatory measures) and Spain (import licenses, discriminatory measures and additional charges).

4. Ores and fuels

Latin America's exports of petroleum and petroleum products, copper, tin, and iron, lead and zinc ore in 1961 totalled about 3,200 million dollars, a value equivalent to 36.7 per cent of the region's total exports. In the same year, petroleum and petroleum products alone accounted for over one-fourth of total Latin American exports, for a value of 2,300 million dollars.

As a rule, world trade in ores and fuels is not subject to high customs tariffs and at the same time other restrictive or discriminatory measures are far less severe than those levied on agricultural commodities. Sometimes, as in the case of the United States' petroleum and copper imports, tariffs and quotas are imposed in order to protect domestic producers; at others, there is some slight tariff discrimination aimed at according preferential treatment to associate territories. However, the main difficulties in this field stem from factors of a different kind, to some of which brief reference will be made below.

One such factor is the circumstance that the most important oilfields in the area are in the hands of foreign enterprises whose similar interests in other areas and connexions with the principal centres of consumption determine the direction in which trade flows. This precludes the less developed countries from taking an active part in decisions on the marketing of the product concerned. In many cases exports are effected in the form of crude fuel or unrefined ores which, besides limiting foreign exchange earnings that might be derived from exports at a more advanced stage of processing. This applies, for example, to copper and tin, the refineries of which are in the United States and Europe, and to some extent also to Venezuelan petroleum.

The foregoing is reflected in the varying share of different underdeveloped areas in the markets of various industrialized countries. In 1961, for instance, the United States imported half of its copper from Latin America, while Belgium's imports came from the Congo (Leopoldville); 60 per cent of the United Kingdom's lead imports were from Australia, New Zealand and South Africa, and only 3 per cent from Latin America, whereas Italy imported 45 per cent of its lead from Latin America; while 12.4 per cent of France's iron ore imports were from Latin America and 30 per cent from Africa (mainly Algeria, Morocco and Tunisia), 40 per cent of Italy's imports came from Latin America and 20 per cent from Africa; in 1961 the United Kingdom imported 13.3 per cent of its petroleum and petroleum products from Latin America and 3.6 per cent from Africa, while France's imports were in the proportion of 6.6 per cent from Latin America and 32.8 per cent from Africa (chiefly the Sahara).

The Organization of Petroleum Exporting Countries (OPEC) was set up in September 1960 with a view to improving marketing conditions and raising income derived from petroleum. The original members were Iran, Iraq, Saudi Arabia, Kuwait and Venezuela, with the subsequent incorporation of

/Indonesia, Libya

Indonesia, Libya and Qatar, and the participation as observers of Nigeria, Algeria, Trinidad and Colombia. In article 2 of the Agreement the Member Governments decided the following:

That the Oil Companies should be required to maintain their prices steady and free from all unnecessary fluctuations; that the Member Countries should endeavour, by all means available to them, to restore present prices to the levels prevailing before the reductions; to ensure that if any new circumstances arise which in the estimation of the Oil Companies necessitate price modifications, the said Companies should enter into consultation with the Member or Members affected in order fully to explain the circumstances.

Article 3 of the Agreement adds that the "Members shall study and formulate a system to ensure the stabilization of prices by, among other means, the regulation of production, with due regard to the interests of the producing and the consuming nations and to the necessity of securing a steady income to the producing countries, an efficient, economic and regular supply of this source of energy to consuming nations, and a fair return on their capital to those investing in the petroleum industry."

It is common knowledge that Latin America's petroleum exports constitute one of the main sources of foreign exchange. The United States is the chief buyer of Latin American petroleum, and imposes various types of restrictions designed to protect the domestic petroleum and coal industry.

As far back as 1932 a tax of 21 cents per barrel was levied on crude petroleum imports, which was reduced in 1952 to 5-1/4 and 10-1/2 cents per barrel according to the quality of petroleum. The United States reserved the right at the time to establish quantitative restrictions on imports of products connected with national defence.

Voluntary quantitative restrictions of up to 7 per cent also began to be imposed in 1952 on petroleum imports other than from Canada and Venezuela.

In 1959 the quantitative restrictions became compulsory and covered both petroleum and petroleum products, and affected imports from all countries except Mexico and Canada, thus discriminating against Venezuela. Import quotas are allocated to United States refineries in proportion to their processing capacity. However, when its geographical location prevents a refinery from making use of its import quotas, it may transfer its share to another coastal refinery, and through this transfer obtains a benefit which, in fact, represents an import duty on petroleum and, in turn, amounts to a subsidy for those refineries which only process United States crude petroleum.

A further aspect of the restrictions concerns import quotas of fuel oil, a product competing with coal. Fuel oil does not seem to be affected by national defence problems, as in the case of crude petroleum and other petroleum products, but here protection of the United States coal industry seems to have been the prevailing concern.

/All these

All these restrictions are aimed not only at maintaining in the United States a proportion of domestic production consistent with national defence needs, but also at affording protection for local petroleum production whose cost is usually higher than in Venezuela.

The position of the EEC countries is still undefined and they are engaged in discussing their future policy, which will not be difficult to enforce owing to the fact that several of them import petroleum through government agencies. Although the EEC countries produce very little petroleum themselves, their output of coal is substantial and production costs in general are higher than in the United States. Measures affecting the interests of the Latin American countries may therefore be expected.

Copper imports are not subject to quantitative restrictions in the developed countries. Furthermore, unprocessed copper has no import duties levied on it in the Federal Republic of Germany and the Benelux countries; it is, however, subject to a special tariff in the United States, equivalent to about 11.2 per cent ad valorem; copper concentrates are also subject to special customs duties which in ad valorem terms are equal to approximately 5.7 per cent in the United Kingdom, while Italy and France impose charges of up to 12 per cent, which in some cases represent preferential treatment in favour of their overseas associates. On the other hand, there are heavy restrictions and severe discrimination in the case of processed copper products.

Neither is iron ore - an increasingly important Latin American export - subject to tariff or quantitative restrictions. Its position has been maintained at constant levels or had registered an upward trend since 1952, but in 1962 some reductions occurred which might be interpreted as symptoms of market saturation.

Although unrefined tin - a major Bolivian export - is also exempt from import duties, there are heavy restrictions and discrimination in respect of the more highly processed product. Its prices on the world market have registered an upward movement in the past few years, as a result of reduced supplies both in Bolivia and Indonesia, but this trend is likely to be curbed by competition in tin substitutes such as aluminium, which may prove more suitable at certain price levels. There is an International Tin Agreement in force from 1961-66 whose primary purpose is to establish a buffer stock which will help to stabilize the world price by means of purchases of tin when the price falls below a certain level and its sale when a given ceiling price is exceeded. As a result of steadily rising prices which for the second time in twenty-eight months exceeded the ceiling contemplated in the agreement, the latter in fact became inoperative since the stock of tin was exhausted. Moreover, the United States - which is the main importer with strategic reserves amounting to over 350,000 tons, i.e., the equivalent of two years' world production - is not a party to the Agreement.

D. OBSTACLES AND RESTRICTIONS IN RESPECT OF EXPORTS OF MANUFACTURES

The foregoing sections show clearly that the expansion of Latin America's traditional exports has been limited by a great many factors, related mainly to restrictions and discrimination imposed by the industrialized countries. The persistence of such obstacles and their severe repercussions on Latin America's prospects of accelerating its development would have justified an attempt further to diversify exports from the region, primarily through exports of manufactures and semi-manufactures. The fact that this did not happen is largely due to combination of adverse factors which failed to provide sufficient encouragement for such an attempt or prevented the attainment of satisfactory results.

Some of the above-mentioned obstacles are similar to those analysed in connexion with traditional export commodities. Others are more concerned with internal problems and difficulties in the region, which are easily explained when it is not only a question of expanding an existing trade flow but of embarking on new export lines. It would be well, therefore, to make a fairly thorough examination of the nature and magnitude of the obstacles in question, distinguishing between those deriving from restrictive and discriminatory practices in force in the industrial centres, those deriving from the region's industrialization process, and those concerned with transport, distribution and marketing problems.

1. Restrictive and discriminatory practices in world trade in manufactures

Any effort on the part of the under-developed countries to initiate and expand exports of manufactures and semi-manufactures to the principal developed areas faces a series of obstacles and artificial barriers of varying importance and of different patterns or incidence according to the country concerned. The following are some of the main obstacles of that kind:

(a) Tariff levels

A common feature of tariffs is the progression in rates of duty according to the degree of processing which the products in question have undergone. Most raw materials are imported duty-free or at nominal tariff rates not exceeding 5 per cent, save in exceptional cases where the duty is fiscal in nature (e.g. tobacco) or where a certain measure of protection is given to domestic agriculture or mining. On the other hand, a higher tariff level usually exists for partially manufactured goods, while for final manufactures or end-products the rates become progressively higher, reaching levels often prohibitive even for producers located in countries where industry has achieved an advanced stage of efficiency.

/In the

In the leather industry, for example, hides and skins are imported practically without duty in most countries (in the United States the rate payable on cattle hides is 4 per cent; in the European Economic Community countries imports are duty-free; in the United Kingdom they are also duty-free when not cured). Bovine cattle leather, on the other hand, is dutiable at an average rate of 11 per cent in the United States, 10 per cent under the EEC common external tariff, and 10 or 15 per cent in the United Kingdom. For travel goods of leather the rates rise to 21 per cent (weighted average) in the United States, 19 per cent in the EEC and up to 30 per cent in the United Kingdom. Likewise, for leather clothing, the United States rates run from 25 to 40 per cent and over (with a weighted average of 28), while for footwear a rather similar tariff structure applies. Another example is that of wool, which in the United States and the EEC countries is subject to a tariff of up to 20 per cent, depending upon its degree of processing. Meat extract is subject to a tariff of from 3 to 30 per cent, depending upon the size of the container.

In the case of metals, most countries allow ores to be imported duty-free, but impose duties which fluctuate between 7 and 15 per cent for simply-processed forms such as blocks, bars, blooms, etc. If processing is carried a stage further (e.g. plate, sheet, strip or wire) the duties increase by a few percentage points; while for tubes, pipes, fittings and other finished forms the duties in countries such as the United States, the United Kingdom and Japan are about 20 per cent or more. When converted into more sophisticated products such as internal combustion engines, vehicles, electrical appliances and equipment, steel furniture, etc., still higher duties are the rule (frequently fluctuating between 25 and 35 per cent ad valorem).

Table 53 illustrates the progressive nature of tariffs and at the same time indicates the absolute levels of duties which apply in the developed countries to three categories of non-food products, excluding petroleum and petroleum products.

It will be observed that, except in the Scandinavian countries, the average rate of duty for finished products was from 17 to 21 per cent, as compared with 0-4 per cent for unprocessed materials and 11-16 per cent for intermediate products destined for further transformation prior to final use. If less industrialized countries outside Europe are considered, still higher tariff levels for manufactured goods are found. In Australia and New Zealand, for instance, tariffs of 45-55 per cent apply to most products competing with local industry; while in the developing areas of Asia (as well as in Latin America itself) the combined level of duties and surcharges on the less complex forms of manufacture present an insurmountable obstacle for the producer wishing to obtain entry to the market.

The existence of preferential trading areas such as those of the British Commonwealth and the European Common Market further handicap the Latin American exporter in the overseas market.

Table 53
TARIFF LEVELS IN DEVELOPED COUNTRIES FOR NON-FOOD COMMODITIES
(Most-favoured-nation regime)

Percentages ad valorem (or equivalent): unweighted averages

Item or group	United States	EEC	United Kingdom	Austria	Denmark	Norway	Sweden	Switzerland	Canada	Japan
A. Crude materials										
Textile fibre	6	0	2	0	0	0	0	2	0	0
Hides and skins	1	0	2	0	0	0	0	0	0	3
Timber	0	4	5	2	0	0	0	4	0	4
Rubber	0	0	0	0	0	0	0	0	0	0
Minerals, non-metallic	2	0	8	8	0	0	0	3	2	1
Fertilizers	0	0	6	4	0	0	0	2	0	0
Animal and vegetable material n.e.s.	4	0	7	3	0	0	0	1	1	2
Metallic ores	4	0	0	0	0	0	0	0	0	0
Total a/	2	0	4	2	0	0	0	2	0	1
B. Intermediate products										
Textile yarn	20	10	18	10	3	7	6	7	13	8
Leather and furs	20	12	15	12	12	20	7	5	16	24
Timber	11	12	14	13	2	5	4	11	9	18
Paper	9	14	11	13	4	6	3	16	16	13
Rubber materials	15	13	14	6	5	11	7	3	15	11
Minerals, non-metallic	14	10	13	16	2	6	10	11	11	12
Chemicals	30	11	15	8	2	10	2	8	8	17
Metals	9	8	7	9	2	1	1	5	7	13
of which: unwrought	4	4	1	3	0	0	0	3	4	6
plates and sheets	11	10	10	13	3	2	2	4	10	16
bars, rods, etc. wrought	12	10	10	12	2	2	2	7	8	17
Total a/	16	11	13	11	4	8	5	8	12	14
C. Final products										
Simpler manufactures	22	17	20	22	10	13	9	9	19	19
Textiles and clothing	29	18	24	24	14	18	14	12	25	18
Leather footwear and furs	25	20	22	22	18	22	12	9	22	28
Wood products	19	14	14	19	6	9	5	12	18	16
Paper products	16	19	18	24	10	12	8	12	19	15
Rubber products	19	19	24	28	8	14	11	6	20	19
Minerals, non-metallic	31	17	22	22	9	12	11	10	14	15
Chemicals	15	14	16	19	7	9	6	7	14	17
Metal manufactures	23	16	21	20	6	10	8	10	18	20
Miscellaneous	24	14	19	17	8	12	7	7	19	20
More complex manufactures	18	17	24	18	6	14	10	7	14	20
Machinery, non-electrical	12	13	17	18	6	10	9	6	9	17
Machinery, electrical	20	15	23	21	8	13	10	5	18	18
Transport equipment	13	22	25	21	8	22	13	13	17	30
Scientific instruments	28	17	33	13	3	11	8	5	11	17
Total	21	17	21	21	8	13	9	9	17	19
Summary										
Crude materials	2	0	4	2	0	0	0	2	0	1
Intermediate products	16	11	13	11	4	8	5	8	12	14
Final products	21	17	21	21	8	13	9	9	17	19

Source: National Tariffs; "Atlantic Tariff and Trade", Political and Economic Planning, London 1962.

a/ Excluding foods, petroleum and petroleum products.

/(b) Quantitative

(b) Quantitative restrictions

While the post-war years have witnessed a considerable reduction in quantitative restrictions on imports, nearly all developed countries maintain a few measures of this kind for certain manufactured commodities imported from other areas. In some cases, the situation is justified on balance of payments grounds (e.g. in Denmark, Japan, New Zealand and South Africa). In others, the claim is generally made that unrestricted entry would cause disruption in the domestic market and damage the local industry. The number of products involved is not large, but they provide a clear illustration of the persistence of measures which contribute nothing towards effectively liberalizing trade and give potential exporters the impression that there are no sufficiently sound bases to support persistent efforts towards diversification of exports.

Symptomatic of a reluctance to permit liberalized trade is the existence of "escape" clauses in the trade agreements of industrialized countries, the recognition of "peril points" beyond which excess imports would not be permitted, and the imposition in recent years of so-called "voluntary" agreements whose prime objective is to protect the local industry under the pretence of orderly market regulation. For the less developed countries, where bargaining power is weak and alternative markets hard to achieve, the acceptance of voluntary restrictions on recently initiated and as yet limited trade flows has been the only course open to them. An example of this is the recent long-term agreement for trade in cotton textiles, affecting Colombia amongst other under-developed countries.

(c) State trading

A problem of potential rather than present importance lies in the absolute power of State enterprises in certain countries to determine the source of supplies, thus assuming a monopsonistic position which might distort the usual flow of trade. In the market economy countries, however, State trading applies in only a limited number of cases, mostly related to the import of tobacco and vegetable oils. The principle involved is nevertheless significant in that imports of the products concerned are confined almost entirely to an unprocessed or lightly processed state, the possibility of an expansion of exports from Latin America of the manufactured product (e.g. cigarettes) being correspondingly remote.

The situation of State trading as carried out by countries with centrally planned economies is more complicated, involving problems such as access to markets, stability and continuity of trade, price and payment systems, and the role which the items concerned play in the over-all development plan of the importing country. These problems are dealt with in a separate part of this study.

/(d) Dumping

(d) Dumping practices and subsidization

Latin America's exports of manufactures and semi-manufactures to overseas markets are not dependent only on the practices followed by the importing country, but also on those of third countries. In some instances, the advantages of lower production and distribution costs enables them to under-sell Latin America on equal terms (for example, the textile industries of Hong Kong, India and Pakistan). In others, they can compete to better advantage by the adoption of differential pricing for export products when the producers concerned wish to obtain, or maintain, a foothold in the overseas market. A variant of this policy applies at times to industries where a large part of the costs are fixed, marginal costs being much lower than average costs per unit of production.

Anti-dumping legislation exists in few countries and its range of action is limited. Where no domestic industry is prejudiced, the importing country normally shows no interest in curtailing dumping, even in the case of claims by affected third countries. In recent years no country, either in accordance with provisions of GATT or its own legislation, has had recourse to action for the prevention or sanctioning of these practices.

(e) Other restrictive or discriminatory trade practices

Besides those mentioned, a number of minor restrictions exist which, if not of significance from a global viewpoint of trade, affect the marketing of individual items. Mixing regulations, although contrary to article III of GATT, apply to the manufacture of certain commodities in certain countries (e.g. tobacco, oils, margarine, soaps); and the requirement that a given percentage should be of domestic origin undoubtedly influences the flow of trade in the items concerned. Quarantine, sanitary and marking regulations have at times also been applied in a discriminating way to restrict the entry of products from a particular country of origin; while the point has more relevance in the case of foodstuffs (notably meat), in some cases the items concerned are processed ones (e.g. butter and cheese) which are of interest to manufacturers in the Latin American region.

A related problem consists, in certain instances, of anti-dumping legislation being unfairly invoked to prevent exports from under-developed countries from competing in the local market of industrialized countries. In many cases, Latin American exports (e.g. Venezuelan cement) have been unable to obtain access to the market of an industrialized country owing to the method used by the would-be importing country for calculating prices in the country of origin. Although most requests for the establishment of anti-dumping duties in countries like the United States have been rejected, the danger of such action (and the risk of having to pay the corresponding duties or to ship the goods back) has sufficed to curb the flow of trade.

/Unnecessary or

Unnecessary or excessive fees and documentary requirements can also be mentioned as measures restraining trade; but their effect is general rather than discriminatory in nature. Similar remarks apply to internal taxes and other revenue charges which, although significant in discouraging the consumption of certain commodities (especially where a graduated tax structure imposes varying rates on different items), create a more serious problem for non-manufactured goods (coffee, tobacco, tea, etc.) than for manufactures.

2. Some characteristics of Latin America's industrialization process

The combination of factors referred to in the preceding sections has in fact been sufficiently powerful to exert a decisive influence on certain patterns of Latin America's industrial development process. These in turn, have further weakened its chances of exporting manufactured goods.

The main question involved is that, under the pressure of balance of payments problems and other development needs, industry was forced to turn first and foremost to import substitution. The purpose of industrial enterprises was to alleviate pressing problems and they consequently benefited from any necessary incentives and protection measures. Although in the long run an equally firm policy of incentives could have promoted the development of export industries as well, these could not be expected to produce results quickly enough to solve the more immediate problems. To a certain extent, even external interests contributed to that pattern. For example, new industrial enterprises were frequently sponsored by foreign firms anxious to maintain their position in the local market through the establishment of local subsidiaries, thus also benefiting from the general climate of protection that was being created.

In short, export was not an objective in the early stages of Latin America's industrialization. In view of the conditions then obtaining and the absence of development plans, perhaps it could not have been otherwise. Be that as it may, the important thing now is not so much to assess the merits or shortcomings of that industrialization policy, but to point out that it notably impaired the capacity of Latin American industry to compete in external markets and that its effects will still be felt in the future.

High tariff barriers have often precluded a reasonable amount of competition that would gradually lead to improved organization of production, greater efficiency and a higher level of productivity. Nor was the establishment of proper systems of quality control considered essential; this proved to be a further obstacle to participation in markets organized on stricter and more efficient lines. Similarly, protectionism and limited competition have fostered relatively high gross profits, favoured also by the shortage of capital which is a typical feature of the developing economies.

/These factors

These factors have, of course, led to relatively high manufacturing costs and prices, to which the other factors mentioned briefly below have also contributed:

(a) Scales of production

In many cases the manufacturing industry, designed exclusively to supply domestic markets which are usually very small because of the size of the population and its low income levels, has chosen techniques which do not allow it to derive the fullest possible advantage from economies of scale. In others, where the choice of techniques is less flexible, market limitations have made it necessary to maintain vast unused capacity, with its consequent repercussions deriving from high capital costs.

(b) Availability of credit and low interest rates

The credit restrictions prevailing in general in the Latin American economies are well known, as are also the rather high interest rates applied. Moreover, the traditional patterns of international financial co-operation have not favoured the channelling of external resources into manufacturing activities. In addition, capital goods are more expensive in developing countries, and investment requirements for certain installations are correspondingly greater.

(c) Raw materials and fuels

While Latin America derives an initial advantage from its plentiful supply of raw materials, various factors often reduce this advantage when it comes to developing industries for the processing of these raw materials for export. Freight costs are one such factor since it usually costs less to ship raw materials for processing in the industrialized countries than to send the finished product. In addition, many firms in industrialized countries, by reason of their financial associations, are in a position to buy, at favoured prices, raw materials of a type which Latin America too must occasionally import. Lastly, while raw materials and fuels may be plentiful in Latin America, the deposits are often located far from the centres of production; as long as transport facilities are inadequate this detracts considerably from the advantages they offer.

(d) Skilled labour and technical "know-how"

The low standard of literacy in some Latin American countries, the lack of prior industrial experience and the shortage of technical training facilities are some of the factors that have offset the advantages of plentiful labour which is a feature of the Latin American countries. The same applies to the technical knowledge required at the level of professional entrepreneurs and production organizers, which has often been conducive to the passive adoption of methods and techniques designed for very different conditions prevailing in the large industrialized centres (frequently against payment of royalties or patent rights and recruitment of key technicians

/and managerial

and managerial or administrative personnel overseas), without adapting these techniques to the peculiar characteristics of the Latin American economies.

A series of internal factors thus arise which, added to those mentioned in connexion with the import policy of industrialized countries and other transport and marketing problems, have in the past constituted a serious obstacle to the development of sizable exports of manufactures from Latin America. There can be no question of establishing an order of priority among all these factors: the efforts that can be made in the areas that depend on decisions by the Latin Americans themselves would prove sterile unless the external factors referred to are modified. In turn, the mere removal of impediments to world imports of manufactures will only create opportunities that cannot really be taken advantage of until major changes are made in Latin America's traditional industrialization policy.

3. Transport, distribution and marketing problems

Apart from the restrictive and discriminatory trade practices still being applied by the industrialized countries to trade in manufactured products, and the problems of a predominantly internal nature which have limited the power of the Latin American economies to diversify exports, other difficulties arise which are mainly connected with the transport, distribution and marketing of manufactured goods.

Some of the salient problems in this respect are set forth below.

(a) Inland transport and port facilities

In some Latin American countries, the main centres of production are located at points not directly connected with the lines of communication to overseas markets (Bogota, Cordoba, Mexico City, etc.). The same problem exists in industrialized countries such as the United States and Canada, but in Latin America it is aggravated by the lack of good inland transport facilities. The inadequacy of these facilities is reflected in high costs, irregular deliveries and difficulties in co-ordinating production with export schedules.

Port facilities are equally deficient. In many countries handling arrangements are inadequate, and the risk of damage (including that arising from unsatisfactory warehousing conditions) is considerable. Delays in the shipment of goods and the long stop-over of ships in Latin American ports are other factors that raise freight charges on incoming and outgoing cargoes. It has been estimated that approximately half the total freight costs in Latin America consist of port expenses (including harbour dues, wharfage, loading and unloading and crew expenses while the ship is in dock).

Then, too, unprocessed commodities (especially ores) can often be shipped at low bulk cargo rates, whereas the small amounts of manufactured goods exported by Latin America are regarded as general cargo at the correspondingly higher freight rate (often calculated on an ad valorem basis).

/Finally, while

Finally, while there are regular air and shipping services between Latin America and the United States or Europe, those to other areas (Eastern Europe, Indonesia, Oceania, the Philippines, certain countries in Africa and Asia, etc.) are infrequent or non-existent.

(b) Financing of exports

The serious shortage and high cost of all forms of credit in Latin America (whether short, medium or long-term), coupled with the lack of an adequate system of insurance against the risk involved in exporting on credit, are urgent problems that severely hamper the development of exports of manufactured goods from Latin America. Those problems are intensified by the competitive nature of the credit schemes open to exporters and the preference of consumers for the source of supply that offers the most advantageous terms of payment.

In the more advanced countries, the financing facilities available to exporters increased considerably after the war; the onus of financing used to be the responsibility of the purchaser, but today it is generally laid upon the supplier of the merchandise. In many countries, the export credit and credit insurance schemes are State-operated. In others, the State acts as sponsor, providing a large part of the operating capital but leaving the administrative aspects in the hands of private or semi-public bodies. In certain cases, the schemes apply to the transaction from shipment to delivery, while in others, pre-financing (coverage of the direct production cost) is included, and in yet another category post-delivery financing (including sales expenses, stock maintenance, post-sales services and research into consumer requirements) is covered as well. In addition, insurance against commercial, political and economic risks and catastrophes is available for certain types of commodities.

No such schemes existed in Latin America until recently. Moreover, although short-term funds are available from normal banking sources, the interest rates of 18 to 20 per cent or even more are far beyond those paid by overseas competitors (8 to 10 per cent), thereby handicapping the Latin American exporter. The recent measures taken by the Inter-American Development Bank to finance certain Latin American exports are confined to intra-regional trade and are not currently applicable to exports to countries outside Latin America.

(c) Market discrimination

A further obstacle is the discriminatory purchasing system created through the implicit reservation of specific markets for producers in specific countries. In Latin America, for instance, many firms are subsidiaries or associates of United States or European firms, and although they are usually granted complete autonomy for local operations in the particular Latin American country concerned, their operations in other parts of the world are controlled directly or indirectly. Direct control may take the form of a specific agreement not to compete in an

/area where

area where the parent company or another subsidiary is operating. In other cases, the distribution arrangements are of an indirect nature, arising out of unwritten agreements between associated manufacturers to respect their particular spheres of action. At times, the arrangements between the parent company and the subsidiary are more binding, the former providing the capital, the technical know-how and, if necessary, the managerial staff and even the skilled labour. In return, the subsidiary is assured of a market for its products, but is tied to a system that prevents it from selling in other countries and from carrying its processing beyond a given stage without the approval of the parent company (as in the case of copper, tin, iron ore and, to a certain extent, petroleum).

(d) Other marketing problems

Additional problems facing the Latin American exporter of manufactured goods who is anxious to obtain a foothold in overseas markets are lack of knowledge, insufficient experience, inadequate research into consumer needs and preferences, marketing shortcomings and lack of credit for developing new markets.

These are yet another consequence of the traditional orientation of Latin American manufacturing production towards local rather than foreign markets, which has meant that producers are largely ignorant of such matters as the most convenient distribution arrangements, the administrative regulations of the exporting country (including customs tariffs, tax laws, etc.), local requirements regarding grading, packing, health, marking and so on, quite apart from the other drawbacks mentioned before.

While industrialized countries have satisfactorily organized systems covering trade promotion centres, information services, commercial representation, market research, etc., these facilities are not available to Latin American producers. Even in the case of primary commodities, the normal procedure is to sell to traditional purchasers who generally have their own buyers in the Latin American country, thus eliminating or reducing the need for overseas contacts. As regards non-traditional exports, the small amount of trade involved militates against the development of a dynamic marketing organization which could promote the sales of manufactured goods abroad and solve problems of consumer needs, design, quality and consistency, transport and delivery schedules, packing, grading, sanitary requirements, and everything related to documents and customs formalities.

E. THE IMBALANCE IN FOREIGN TRADE IN INVISIBLES

In addition to the restrictions that prevent Latin America from developing its traditional export trade, and the barriers to diversification of its exports through the initiation and expansion of a flow of manufactured goods to other countries, yet another element handicapping its foreign trade is the disequilibrium in invisible transactions.

Trade in invisibles comprises a wide variety of items, among which the most representative, apart, of course, from capital transactions, are freight and passenger transport services, insurance on shipping and incoming and outgoing cargoes, travel and the tourist industry. The importance of some of these items for Latin America's balance of payments is apparent from table 54.

The freight figures included in the table refer, on the debit side, to the total f.o.b. freight value of imports, including those carried in domestic bottoms. On the credit side, the figures include the freight value of exports carried in domestic bottoms and of cargoes carried in Latin American ships between third countries, as well as the freight value of imports carried in domestic bottoms. While the latter should not be included in the balance of payments, their inclusion in the debit figures made it necessary, from the statistical standpoint, to include them also in the credit figures. This does not, of course, affect the balance. The same applies to insurance; the debit figures include all insurance on imports contracted at home or abroad. Therefore, insurance contracted at home both on imported and exported goods have also been included in the credit figures.

Freight charges on imports constitute about 10 per cent of their f.o.b. value. Total freight costs of exports, including those carried in foreign vessels, may be activated at 1,100 million to 1,200 million dollars. Accordingly, the aggregate value of freight for Latin America's foreign trade is about 1,900 million dollars or 2,100 million dollars if insurance on imports and exports is added. The region's credit balance for travel and the tourist trade is due largely to Mexico's substantial income under that head and, to a lesser extent, that of Haiti, Panama and Uruguay. If these four countries are excluded, these would be a negative balance of some 130 million dollars.

The amounts in question are thus of sufficient relative importance to be studied at some length. The data available and the state of current knowledge on the subject necessarily limits the analysis to a single factor, albeit the most important, which is maritime transport.

In connexion with travel and the tourist trade, it should be pointed out that out of a total credit of 927 million dollars, the South American countries' share was only 160 million dollars, which shows that a large section of Latin America has failed so far to take advantage of the tourist and travel trade developing throughout the world.

Table 54

LATIN AMERICA: MAIN COMPONENTS OF TRADE IN INVISIBLES, 1961

(Millions of dollars)

	Freight	Insurance	Other	Total	Travel and the tourist industry
Credit	206.9	2.0	174.5	383.4	927.1
Debit	733.7	68.8	238.3	1 040.8	618.6
Balance	-526.8	-66.8	-63.8	-657.4	308.5

Source: Summary based on the International Monetary Fund study entitled International transactions in services in the Balance of payments of under-developed countries, revised and expanded version, 17 September 1963.

/The importance

The importance of maritime transport will be more clearly understood if it is pointed out that more than 90 per cent of Latin America's exports and imports are carried by sea. In 1961, the region's debit balance under the head of freight was 527 million dollars, or 640 million if insurance and other transport charges are added.^{12/} Although the Latin American countries are seldom left with a debit balance for freight charges on exports, as they are in the case of imports, they are often compelled to absorb rate increases in order to maintain their competitive status on world markets, or to face the fact that freight charges remain steady while export prices drop. It should also be pointed out that although total freight charges in respect of Latin America's world trade amounted to 1,900 million dollars in 1961, Latin American shipping companies received only 207 million dollars - 11 per cent of the total - in freight charges. Two main factors will determine how far these conditions in Latin America can improve. One is a larger and better merchant marine including better harbour facilities. The other is the abolition, on the part of the major shipping powers, of certain discriminatory practices and attitudes hampering a reasonable and equitable development of Latin America's merchant fleets.

The merchant fleets of ten Latin American countries - the nine countries of South America (excluding Bolivia) and Mexico - now consist of 784 vessels with a gross tonnage of 3.4 million tons and a dead weight of 4.7 million tons, which amount to barely 2.4 per cent of the world total. This percentage is remarkably low, considering that the volume of these countries' maritime trade, is more than 21 per cent of the world total, and has tended to decline in the last few years (in 1949 it stood at 2.6 per cent).

Thus, Latin America depends to a great extent on foreign vessels for its export and import traffic, since its own ships carry 14.8 million metric tons, i.e., only 6 per cent of the area's entire foreign trade.

^{12/} These cover a fairly heterogeneous combination of assets and liabilities, mainly disbursements and receipts in respect of vessels chartered by Latin American countries, sea and air travel, and miscellaneous expenditure in ports and airports for ships and planes, particularly for fuel and other supplies, loading, unloading, harbour dues, and the revision and maintenance of ships and airplanes.

/This explains

This explains why most of the Latin American countries have taken a number of steps to develop and protect their merchant fleets,^{13/} particularly since the Second World War when they were seriously handicapped by the dearth of national merchant ships and the shortage of foreign vessels to carry their traffic.

^{13/} By virtue of Act No. 6,987 of 1948, Argentina decreed that all exports or imports of goods by official or semi-official bodies would be carried under the national flag. Brazil, in its Act No. 3,381 of 1958, promulgated the following year, ruled that imported goods enjoying the protection of a government franchise, or acquired totally or partially with the aid of credit from official financing agencies, should, with due regard for the principle of reciprocity, be carried under the Brazilian flag. Colombia and Ecuador expanded their own transport capacity by forming in 1947, together with Venezuela which subsequently withdrew, the Greater Colombian Merchant Fleet, whose vessels receive preferential treatment in the transport of goods intended for Government bodies. Under Act No. 12,041 of 1956, Chile reserved for its own vessels the right to transport 50 per cent of all maritime cargo traffic between Chile and countries that were or are served by Chilean shipping lines. Since 1961, Uruguay has made it obligatory for cargoes owned by government enterprises to be carried under its flag, and from June 1963 onwards, extended the requirement to departmental governments, autonomous agencies and decentralized services, at the same time reducing the exchange surcharge on goods transported in national merchant ships by 50 per cent and exempting them from payment of the 6 per cent tax on transfers of funds abroad. Lastly, Venezuela has provided that state-owned cargo should be transported in vessels flying the national flag and, by ministerial resolution in 1961, that goods exempt from payment of import duties (capital goods, etc.) should also be carried by its own ships.

/The measures

The measures adopted on a national scale have been supplemented by agreements reached at international meetings. 14/

Such aims naturally have to confront the obstacles inherent in the Latin American countries' limited powers of investment and the comparative importance likely to be attached to investment in this field as against other economic development requirements. Moreover, the incentives for an expansion of the region's merchant fleets and even for a more intensive use of available transport capacity are robbed of much of their force by unfavourable attitudes and policies on the part of the big sea powers.

In fact, every time a Latin American country has made legal or administrative provision for its merchant fleet to take a more active part in its import and export trade, it has met with opposition from the

14/ At the Chapultepec Conference (Mexico, 1945), it was agreed that "the American Republics consider the promotion and development of their merchant fleets and the establishment of adequate transport systems for each country to be a keystone for their economies", and at the Meeting of Ministers for Finance or Economic Affairs at the fourth extraordinary session of IA-ECOSOC (Rio de Janeiro, 1954) it was stated to be "the policy of the American Republics that their national merchant fleets, composed of vessels flying their flags, should carry a substantial part of their foreign trade". Similarly, the Charter of Punta del Este recognized that "the promotion and co-ordination of transportation and communications systems is an effective way to accelerate the integration process" and that "in order to counteract abusive practices in relation to freight rates and tariffs, it is advisable to encourage the establishment of multinational transport and communications enterprises in the Latin American countries or to find other appropriate solutions". ALALC, for its part, has been engaged since 1961 in working out a definition of regional maritime policy and has set up an Advisory Commission on Transport, which, at its first meeting (June 1963), adopted the preliminary draft of a General Convention on Waterborne Transport based on the Montevideo Treaty, whereby intra-regional trade was reserved for ships flying the national flags of the Contracting Parties. As agreement could not be reached on some of the principal articles of the Convention - the most important of which concerned multi-lateral cargo reservation rights - it was decided at ALALC's third round of negotiations (November 1963) to keep the matter open for discussion. The question of a shipping policy for the area is also of interest to the newly-established Latin American Shipowners Association, which was to discuss it at its next general assembly (Montevideo, January 1964).

/traditional sea

traditional sea powers in the form of complaints through diplomatic channels 15/, and, in some cases, by making the granting of economic aid conditional upon the waiving of the principle of reserving cargo rights.

The traditional maritime powers also resort to direct and indirect preferential measures to help their own merchant fleets, thus making it difficult for Latin American shipping to take a more active part in transporting the region's exports and imports. For instance, France, Italy and the United States pay construction and operating subsidies to their shipowners to enable them to compete abroad; the Federal Republic of Germany, Greece, Italy, Japan, Sweden, the United Kingdom and the United States give them a number of tax benefits; Denmark, France and Japan offer better amortization terms to their shipping than to their land-based industries; and the Federal Republic of Germany, France, Italy, Japan, the Netherlands, Sweden and the United States grant loans at low rates of interest or pay part of the interest for ships to be built by their own nationals in domestic shipyards.

Some sea powers also take steps to protect their own flags in cargo distribution, either through legislation proper or administrative measures requiring shipments by government enterprises or agencies to be carried in domestic ships. Thus, in the United States the Cargo Preference Act of 1954 provides that at least 50 per cent of the quantum of aid cargo or any other cargo financed directly or indirectly by the Government or

15/ As was the case in Chile during the discussion of Act No. 12,041 (Promotion of the Merchant Marine), against which repeated protests were made by the Governments of eight maritime powers accounting for two-thirds of world tonnage. The same occurred when Colombia was considering a decree to protect its merchant fleet on the lines of the Chilean decree, when Brazil in 1959 passed a law favouring its merchant fleet and when Venezuela took steps to protect the State shipping enterprise. This has also happened recently in the case of Uruguay. Since 1957 the Greater Colombia Merchant Fleet has been unable to obtain in the United States the waivers required for cargo covered by Public Law No. 17 of 1934 (Cargo Preference Act). Lastly, the shipping companies of Brazil, Chile and Venezuela that transport goods abroad have had to resort to the expedient of signing freight pool agreements with their European and United States competitors, in order to give them a share in the quota which the laws of the first three countries reserve for the national flag, and thus ensure that they do not block the application of protectionist measures. Such a transfer of transport rights to foreign vessels is, of course, contrary to the spirit of legislation enacted to promote shipping. Thus the scope of the policy of promoting domestic shipping, in support of which these laws were enacted, has been limited by external factors.

its agencies shall be carried in American ships. While such cargoes form only a very small share of total United States exports, the developing countries which receive aid from the United States are the ones most affected by the provisions of the Act.

The legislation of some of the larger countries also provides for sanctions against countries taking measures that are considered to discriminate against or threaten their interests. An example of this is the United States law of 3 October 1913 which empowers the Government to impose a discriminatory duty of up to 10 per cent of the value of the merchandise imported in foreign vessels, and the Foreign Trade Act of 1961, promulgated by the Federal Republic of Germany, which establishes restrictions on the shipment of goods in vessels owned by countries "impeding the participation, on a competitive basis, of the German merchant fleet". This provision has been applied since 1961 to Brazil and Venezuela, whose own ships and chartered vessels cannot load cargo in the Federal Republic of Germany without a special license from the Federal Ministry of Transport, "in order to protect the German merchant fleet from discrimination by these countries".

Moreover, the Latin American countries are competing for the right to carry their own cargoes not only with the vessels of sea powers that are heavily protected and subsidized by their Governments, but with another group in a highly favourable economic situation, i.e., the vessels that sail under a "flag of convenience". The flags of Liberia and Panama, which are mainly used in this sense, together protect more than 14 million gross tons of shipping, of which 9 million are tankers, i.e., more than three times the total tonnage of the Latin American merchant fleets and six times that of their tankers. The owners of craft flying "shadow flags" are actually citizens of the traditional maritime nations who hope thereby to evade their tax liabilities and the need to fulfil certain minimum requirements as regards facilities and social security regulations for their crews.

Freight conferences, although useful as a means of stabilizing tariffs and regularizing international services, have not proved an effective instrument for eliminating some of the restrictive harmful practices and irregular procedures that are prejudicing the Latin American countries, which are in an absolute minority in such groups. The thirty-four conferences that are concerned with the main transport services linking Latin America with the United States and Europe bring together 121 shipping companies, of which only eight are Latin American. Moreover, only at fourteen of these conferences have some of the regional lines been represented. Among the agreements detrimental to the maritime activities of the Latin American countries, the most harmful are those that divide some traffic among the affiliated European merchant ships, to the exclusion of Latin American vessels, even though they belong to the same

/conference group.

conference group,^{16/} Nevertheless, the stand taken by the Latin American lines at the conferences in which they have taken part has led them to oppose tariff surcharges and higher rates increases which they felt to be unwarranted and to obtain reductions in the freight rates for certain basic export commodities. For instance, the Greater Colombia Merchant Fleet managed to obtain reduced tariffs for coffee cargoes as soon as it took part in the European and United States conferences, and the Compañia Sudamericana de Vapores secured special rates for the promotion of Chilean products in search of new markets (e.g. steel in Europe), and has recently prevented a surcharge from being imposed on freight for Arica. It has also been influential in ensuring that Chile, alone of the South American countries, does not add a surcharge to conference rates.

At the present time, the only areas to which the Latin American countries maintain regular shipping services are the United States and Western Europe, with which more than two-thirds of their trade is conducted. But sea communications among the Latin American countries themselves are neglected and there is an almost total lack of transport services to the countries with centrally planned economies - apart from Yugoslavia and Poland - and to such vast developing areas as West Africa. There can be no doubt that this state of affairs is also reducing Latin America's possibilities of expanding and diversifying its export trade.

^{16/} The conference between Northern Europe, Brazil and the River Plate countries maintains an agreement whereby Danish, Norwegian and Swedish shipowners may not load in West European ports served by conference vessels, and these must, in their turn, refrain from taking cargo aboard in Scandinavian ports. The same arrangement holds good for affiliated Argentine boats which may not load in Scandinavian ports although Scandinavian vessels operate freely in Argentine ports. The European-Magellan and South American conference has a similar agreement, according to which Chilean ships are prohibited from taking on cargo in Denmark, Norway or Sweden although no restrictions are applied to ships of those nations in Chilean ports.

F. OVER-ALL EVALUATION

It may now be useful to attempt an over-all evaluation, however general in character, of the effects on Latin America's foreign trade of the complex of factors referred to above. Such an evaluation is essential not only in order to explain past events and trends, but above all in order to deduce from past experience what can and should be done in the future, both through Latin American's own efforts and through action that would have to be left to the more developed countries.

The most important effects of the factors discussed are, of course, the very slow growth rate of Latin American exports in relation to the needs even of a degree of development that leaves much to be desired, and the losses due to unfavourable trends in the terms of trade. Those losses are considerable not only in terms of capacity to import, but even in terms of the total volume of income generated in the region. Both these fundamental effects have been sufficiently dealt with in the section on Latin America's foreign trade and economic development, and it is therefore unnecessary to dwell further on them here. On the other hand it appears useful to consider some ancillary conclusions, summed up in the sections that follow.

1. Factors relating principally to the policy of the large industrial countries as causes of appreciable reductions in Latin America's share of world trade and changes in the composition of the region's traditional exports.

The magnitude and consequences of the stagnation of Latin American trade have been described in detail above. The extent to which this stagnation has affected certain basic sectors of the region's trade has already been shown in table 19. This table shows that between 1934-38 and 1950-52, the Latin American share increased for only five of the twenty-three products covered by the data available, and only two of these products (sugar and cotton) were of significant importance in the region's total exports. Between 1950-52 and 1959-61 there was a general though less marked reduction in the Latin American share; there was an increase only in respect of four of the thirty-one products considered, and of these cotton was the only product of any importance. It is not, of course, possible to assess with any precision the effect of this decline in Latin America's share of the world market on the region's foreign trade, but some calculations can be made by way of illustration. For this purpose it is convenient to confine the study to a smaller number of products for which Latin America has maintained a clearly competitive footing from the price standpoint. This applies, for example, to tropical commodities, notably coffee and cacao, which have remained competitive in relation to other areas allowing for the differences of quality for some products. The same is true for some temperate commodities, and for the purposes of the hypothetical calculation maize, wheat, beef, barley and linseed have been selected, products for which the Latin American prices are, broadly speaking, the lowest in the world. If effective exports of these commodities are compared with what could have been exported if the share of world trade that went to Latin America in 1934-38 had been maintained, and the differences of the various averages are expressed

/in f.o.b.

in f.o.b. prices for the year concerned, the following figures are obtained (in millions of dollars):

Tropical commodities:

Coffee (1953-62)	2,900	
Cacao (1953-62)	<u>300</u>	3,200

Temperate commodities:

Maize (1953-61)	2,400	
Wheat (1953-61)	1,800	
Beef (1953-61)	1,100	
Barley (1953-61)	200	
Linseed oil (1953-61)	<u>150</u>	<u>5,600</u>
<u>Total</u>		<u>8,800</u>

Thus in roughly ten years the reduction in Latin America's share of world trade has involved losses of export earnings of the order of 9,000 million dollars.

Naturally, it is much more difficult to assess how far this reduction is related to the restrictive or discriminatory protectionist policies pursued by the industrial areas. Nevertheless, some indirect indication of the effect of such policies can be obtained by studying the trends in the structure of Latin American exports. As stated previously, these policies were harsh for agricultural products, less so for fuels and ores, and virtually prohibitive as regards any possibility of a share of the market in the industrial countries for exports of manufactured goods. If these policies had in fact succeeded in having any marked effect on the flow of Latin American trade, these differences in the degree of protection and restrictions would necessarily be reflected in changes in the structure of Latin American exports, on the lines of the discriminatory treatment of the different types of products.

A study of the figures in the table 55 leaves little doubt that this is the case, even though the table is limited in scope because of the lack of data available for the periods selected between the years 1950 and 1961.

In 1948 agricultural and livestock products constituted 62 per cent of the region's total exports, and this proportion declined steadily until in 1962 it was 43 per cent. The relative importance of fuels and minerals, on the other hand, increased continuously from 32 per cent of total exports in 1948 to 50 per cent in 1962, the bulk of the increase being for fuels. The share of non-traditional exports (mainly manufactured goods) increased only slightly, and even the low levels maintained represented mainly trade between the Latin American countries themselves.

These general observations on the effects of the policies in question will be supplemented below by data on changes in the geographical distribution of Latin American exports, due to similar factors. For the moment, suffice it to add a few illustrations as to the effects of these policies on some

Table 55

LATIN AMERICA^{a/}: COMPOSITION OF EXPORTS, FOR SELECTED PERIODS

(Percentage of total value)

Product	1950-52	1955-57	1959-60	1961
<u>Basic exports</u>	96	96	93	93
Agricultural	54	49	43	41
Livestock	12	9	10	11
Fuels	20	26	27	27
Minerals	10	12	13	14
<u>Other (non-traditional) exports</u>	<u>4</u>	<u>4</u>	<u>7</u>	<u>7</u>
<u>Total exports</u>	<u>100</u>	<u>100</u>	<u>100</u>	<u>100</u>
<u>Value in millions of dollars</u>	7 105	8 343	8 420	8 611

a/ Excluding Haiti.

/individual commodities.

individual commodities. Between the three-year periods 1950-52 and 1959-61 petroleum replaced coffee as the principal export of Latin America, the share of petroleum rising from 20.6 to 27.6 per cent of the region's exports, and the share of coffee decreasing from 22.6 to 17 per cent. Many agricultural products also declined in relative importance during the same period; sugar, for example, from 9.3 to 8.1 per cent; cotton from 5 to 3.9 per cent; wheat from 2 to 1.4 per cent, and bananas from 2 to 1.8 per cent. The one or two increases were exceptional (for example, the share of maize rose from 0.6 to 1.4 per cent). Under the heading of livestock products the increase in the share of meat from 1.6 to 2.1 per cent was offset by decreases for wool (from 3.4 to 2.4 per cent) and hides (from 2.3 to 0.9 per cent).

The increase in the share of mineral products was largely due to expansion in exports of iron ore (the only new product of any significance during the period, representing 3.1 per cent of total exports) and copper (whose share rose from 3.8 to 5.1 per cent). On the other hand there were significant decreases in the contributions of lead, tin and zinc.

2. The agricultural policy of the industrial countries as a predominant factor in limiting the growth of Latin American exports

The general information presented above is sufficient indication that the agricultural policy pursued by the main developed areas has been one of the principal factors responsible for the poor performance of Latin American exports. However, the implications of the problem are so far-reaching that it is appropriate to consider a few other relevant factors.

One of these relates to the expansion of agricultural production in the industrial areas. In the United States agricultural production expanded by 15 per cent between 1930 and 1940, nearly 25 per cent between 1940 and 1950 and nearly 30 per cent between 1950 and 1960. This reveals a growth rate that is not in line with domestic needs. In the countries of the European Economic Community, the increase between pre-war levels of agricultural production and those for the crop-year 1962/63 were 50 per cent in France and Belgium, almost as much in the Federal Republic of Germany and Italy, and nearly 80 per cent in the Netherlands. In the United Kingdom agricultural production nearly doubled during this period. In addition it should be borne in mind, in evaluating the meaning of these increases, that the countries concerned have demographic growth rates much lower than those in large areas of the under-developed world.

Another factor which should be noted is that this expansion can only have been achieved by a basic change in agricultural techniques. Under the stimulus of subsidies, price supports and reserved shares of the market, which involved the mobilization of financial resources on a scale quite beyond the reach of the developing countries, the use of improved techniques and inputs has been taken to the limits of economicity.

The figures in table 56 illustrate, for a sample group of commodities, the increase in production in the various areas between 1934-38 and 1958-60.

/Table 56

Table 56

INCREASE IN THE PRODUCTION OF TWELVE PRINCIPAL CROPS a/, AND CHANGES IN AREA UNDER CULTIVATION AND IN YIELD, BETWEEN 1934-38 AND 1958-60

(Percentage)

Area	Changes in		
	Production	Under cultivation	Per hectare
Africa	+92	+50	+28
Eastern Europe and Soviet Union	+24	+6	+16
Far East <u>b/</u>	+32	+24	+6
Latin America	+60	+41	+14
Middle East	+69	+65	+2
North America	+73	-3	+78
Oceania	+78	+18	+52
Western Europe	+23	-4	+29
Total for all regions considered	+41	+13	+24

Source: FAO, The state of food and agriculture (C. 63/7, 1963) p. 116.

a/ Total weighted prices for wheat, rye, barley, oats, maize, rice, potatoes, soya, groundnuts, tobacco, cotton and jute.

b/ Excluding mainland China.

/The table

The table shows that while in practically all the developing areas the higher production is due to increases in the area under cultivation, in the more advanced economies the difference is mainly due to marked increases in yield per hectare, which in North America amounts to nearly 80 per cent.

This inevitably raises the question of how far an agricultural policy such as that pursued by some of the large industrial countries is legitimate, from the standpoint not only of the principles of international solidarity and the responsibility of the industrial economies towards the developing countries, but also from a strictly economic standpoint. Admittedly there would be some initial justification for trying to preserve the continuity of essential rural activities and avoid any deterioration in the relative position of the agricultural sector in the national economy, or even for confining action to an attempt to reduce or remedy temporary balance of payments problems; neither course is likely to cause serious disturbances of international trade. But it is quite another matter when this type of policy is transformed into a permanent line of action and intensified to the point when it results in vast surpluses that subsequently come on the world market with the support of subsidies to offset their higher costs.

The deterioration in prices that such a policy inevitably leads to entailed no problem for the industrial countries other than an adjustment in the subsidy levels, whereas for the developing countries the result was a reduction in the already low earnings of an impoverished agriculture. Because of this, and because of the need in these circumstances to restrict production to levels of output that can readily be disposed of, the developing countries are deprived of any chance of increasing their own agricultural activity or introducing any technical advances that might be economically justifiable.

This does not apply only to temperate commodities. The restrictions and charges that limit consumption of tropical commodities in the more advanced countries are a serious obstacle to any increase in exports from the supplier countries in the under-developed areas. In some cases, where the growth cycle is relatively long, it has not been possible to reduce output immediately in response to restrictions of demand, and the developing countries have been obliged to carry the burden of financing increasingly large surpluses. For coffee alone, the present Latin American stocks calculated at market values represent some 2,500 million dollars, or a quarter of the total value of Latin America's total annual exports.

It must be recognized, in addition, that the effect of the figures concerned is very different for the industrial economies and for the developing countries. Agricultural protection, for the former, means protecting a sector whose relative importance in terms of total income is slight (5 per cent in the United States and the United Kingdom, 8 per cent in Belgium, 10 per cent in the Federal Republic of Germany and 16 per cent in France), and which employs only a small proportion of the total labour force. For the developing countries, on the contrary, anything that affects agriculture is affecting a sector that may generate as much as half the national income (even in the exceptional case of Argentina the figure is no lower than 19 per cent) and that absorbs a substantial proportion of the labour force. Similarly, the estimated 1,000 million dollars a year which represents part of the loss to Latin America caused by the present distortions in the trade in agricultural products is no more than an insignificant proportion of the foreign trade of the industrial countries, but represents about 12 per cent of all Latin American exports.

3. Continuing dependence of Latin American exports on a small number of primary commodities in the post-war period

As previously stated, exports of primary commodities (agricultural products, fuels and minerals) still constitute a very high proportion of the region's total exports: 93 per cent of total value in recent times, compared with 96 per cent in 1950-52 and 94 per cent in 1948. This fact alone suggests that the obstacles to any substantial growth of exports of traditional products have had an equal effect in blocking the path to any establishment or expansion of new trade lines, especially in the way of exports of manufactures. However, a more exact assessment of the possible effects of the conditions obtaining in the industrial economies, and of other factors of a domestic nature to which reference is made in the appropriate sections, calls for a more detailed study since in any consideration confined to the over-all figures, the type of definition or classification adopted may have the effect of concealing trends of some significance.

Table 57 shows the structure of Latin American exports as a whole in 1961, by degree of processing. More than three-quarters of the region's exports were in a crude or virtually unprocessed state,^{17/} 19 per cent in a semi-processed or intermediate state, and only 3 per cent in a fully processed state.

Moreover, it would be incorrect to infer from this data that the exports of intermediate and finished products represent manufactured goods proper. The bulk of the figures in these categories are in fact petroleum products, refined minerals, fats and oils, refined sugar and other food-stuffs which represent only very simply processed forms of Latin America's traditional export items. A clearer picture is given by table 58 which distinguishes between the manufactured exports of a non-traditional type and those that are forms of the traditional primary commodities. This table shows that in 1961, despite all the unfavourable factors affecting the region's traditional exports, the exports of manufactures proper represented only a little over 4 per cent of total exports.

Among the manufactured items not traditionally exported, chemicals, textiles, animal foods and other foods were the most significant, but none of them accounted for even 1 per cent of the region's exports for 1961.

Food products consisted mainly (in order of importance) of cocoa paste and butter, tinned fish, tinned fruit (principally peaches), coffee extracts, chocolate, canned vegetables, fruit juices, tinned or dehydrated milk, and sugar confectionery. A small amount of alcoholic beverages were also exported, mainly wine from Chile and rum from the Caribbean countries. The most outstanding development in recent years, however, is the growth of an export trade in fishmeal; exports from Peru, and to a smaller extent

^{17/} Conventionally, items such as chilled meat that involve only the minimum processing necessary for transport purposes, are considered as crude. The same applies to products such as cotton fibre, husked rice, etc., which from some standpoints are considered as products of manufacturing industry.

Table 57

LATIN AMERICA^{a/}: EXPORTS ACCORDING TO DEGREE OF PROCESSING, 1961

(Value in millions of dollars)

Product	Degree of processing			Total
	Unprocessed	Intermediate	Finished	
Food, beverages, tobacco	3 221	184	148	3 553
Textiles (fibres, yarns, etc.)	676	53	20	749
Metals	419	576	37	1 032
Petroleum	1 796	623 ^{b/}	-	2 359
Chemicals	-	65	27	92
Seeds, fats and oils	29	133	^{c/}	162
Other products	522	22	34	578
Not classified	24	-	-	24
<u>Total</u>	<u>6 627</u>	<u>1 656</u>	<u>266</u>	<u>8 549</u>

^{a/} Excluding Haiti and Nicaragua.

^{b/} Includes diesel oil, gas oil and fuel oil, which together represent a value of 504 million dollars, and gasoline and kerosene, representing a value of 119 million dollars. On the basis of a slightly different classification gasoline and kerosene would be regarded as finished products.

^{c/} The finished products consist mainly of foodstuffs and chemicals.

Table 58

LATIN AMERICA^{a/}: EXPORTS OF TRADITIONAL AND NON-TRADITIONAL
MANUFACTURED PRODUCTS, 1961

Product	Value (millions of dollars)	Percentage of:	
		Total exports	Manufac- tured exports
<u>Traditional exports</u>	<u>1 553.7</u>	<u>18.2</u>	<u>80.9</u>
Processed foods	212.8	2.5	11.1
Fats and oils	133.1	1.6	6.9
Non-ferrous metals (worked)	564.3	6.6	29.4
Petroleum products	623.5	7.3	32.5
Essential oils	19.9	0.2	1.0
<u>Non-traditional exports</u>	<u>367.7</u>	<u>4.3</u>	<u>19.1</u>
Processed foods, (including animal feed) beverages, etc. prepared	118.6	1.4	6.2
Textile yarn and fabrics	72.5	0.8	3.8
Clothing (including footwear)	4.0	0.1	0.2
Leather and leather manufactures	8.3	0.1	0.4
Chemicals	71.8	0.8	3.7
Mineral manufactures	15.8	0.2	0.8
Ferrous metals (worked)	11.5	0.1	0.6
Metal manufactures and machinery	37.0	0.5	1.9
Other manufactures	28.2	0.3	1.5
<u>Total</u>	<u>1 921.4</u>	<u>22.5</u>	<u>100.0</u>

a/ Excluding Haiti and Nicaragua. The data for Cuba were based on 1960.

/from Chile,

from Chile, have found a ready acceptance as animal food or fertilizer in the European market, and represented a value of 100 million dollars in 1961, as against only 285,000 dollars in 1950.

Exports of chemicals consisted mainly of metallic oxides, glycerine, ethyl alcohol, acids, drugs, medicines, insecticides, dextrans, casein and gluten flour.

In the textile group, only wool tops, hard-fibre yarns and (to some extent) cotton fabrics were of any significance. Trade in cotton yarns still amounts to very little, and exports of wool fabrics have not developed as might have been expected in a wool-producing region. Similarly, manufactured clothing is not exported to any extent, while footwear and other articles of leather find acceptance only in limited quantities.

In the metal group there is a small volume of trade (mainly with the United States and Japan) in iron and steel (in the form of bars, sheet, plate, wire, tubes, etc.). In recent years some trade has also developed in metal manufactures, machinery and transport equipment, although about half of this trade is intra-regional. Similarly, the newly-developed trade in paper, cement, timber products, films, books, musical instruments, records, optical and scientific instruments, furniture, rubber products and other finished goods is mainly between the Latin American countries themselves, and does not represent sales on the world market.

The restrictions on any expansion of Latin America's share in world trade in products of this type have even led to a reduction in this share compared with earlier periods. Thus in 1952 finished products exported by Latin America represented 4.4 per cent of the total imports of such products by Canada, the United States, western Europe and Japan, but this proportion shrank to 3.9 per cent in 1956 and only 2.9 per cent in 1961.

There was an even more marked contraction in manufactured products for final consumption, while the decline in exports of many items included under the heading of intermediate or semi-finished products was offset by the increase in exports of fuel oil and other petroleum products. In the sixties the share of semi-processed non-ferrous metals in the main markets fell from 17 to 12 per cent.

The trend was very different in other developing countries and in western Europe, whose share of the markets represented by the industrial countries increased from 10.8 per cent to 12.2 per cent for semi-finished products not belonging to the category of traditional Latin American exports, and from 10.7 per cent to 12.5 per cent for finished products (see table 59).

The increase in exports from the other developing zones was substantial, not only for cotton textiles and clothing but also for many other finished products. The increase in the share of the market of some of these products between 1952 and 1961 was: electrical machinery, from 3.3 to 11.0 per cent;

Table 59

PERCENTAGE SHARE OF LATIN AMERICA AND OTHER AREAS IN IMPORTS OF MANUFACTURES BY THE INDUSTRIALIZED COUNTRIES

Item	Origin	Latin America			Developed countries			Eastern Europe			Rest of the world		
		1952	1956	1961	1952	1956	1961	1952	1956	1961	1952	1956	1961
Total manufactures		4.4	3.2	2.9	77.9	78.6	81.1	1.0	1.9	2.1	16.7	15.6	13.9
Traditional products		13.6	13.7	14.0	49.5	50.8	53.1	0.6	2.1	3.9	36.3	33.4	29.0
Non-traditional products		1.0	0.8	0.5	88.4	87.5	87.1	1.2	1.8	1.7	9.4	9.9	10.1
Traditional products		13.6	13.7	14.0	89.5	50.8	53.1	0.6	2.1	3.9	36.3	33.4	29.0
Foods, beverages and tobacco		8.0	8.2	9.6	54.4	53.2	58.6	2.0	2.8	5.6	35.6	35.8	26.2
Canned meat		22.7	21.3	25.2	42.1	46.0	46.7	2.5	8.0	11.6	32.7	24.7	16.5
Wheat flour		0.8	0.1	0.2	64.8	62.5	79.7	0.3	-	0.2	34.1	37.4	19.9
Tobacco manufactures		17.7	17.8	9.2	74.6	75.9	86.6	-	0.6	-	7.7	5.7	4.2
Petroleum products		9.8	15.4	17.9	49.8	46.6	43.0	0.7	3.4	6.7	39.7	34.6	32.4
Oils and fats		14.1	7.6	16.3	34.0	41.5	41.5	0.6	0.4	2.0	51.3	50.5	40.2
Animal oils		0.9	1.6	9.9	57.3	68.3	64.1	0.1	-	0.1	41.7	30.1	25.9
Vegetable oils		13.5	6.3	16.9	26.3	30.5	31.8	0.7	0.5	0.3	59.5	62.7	51.0
Essential oils		9.7	10.7	9.2	54.5	57.0	62.0	2.1	1.6	1.8	33.7	30.7	27.0
Non-ferrous metals		17.1	16.1	12.4	51.7	54.6	60.9	-	1.5	1.8	31.2	27.8	24.9
Copper		29.1	25.8	21.4	37.2	40.1	47.0	-	-	0.1	33.7	34.1	31.5
Lead		30.1	27.6	23.8	34.1	29.6	42.8	-	-	10.1	35.8	42.8	23.3
Zinc		4.7	5.2	7.3	84.1	79.4	69.8	-	4.3	13.8	11.2	11.1	9.1
Tin		0.1	0.3	1.6	43.5	43.7	38.8	-	0.7	0.3	56.4	55.3	59.3
Non-traditional products		1.0	0.8	0.5	88.4	87.5	87.1	1.2	1.8	1.7	9.4	9.9	10.7
Intermediate products		1.7	1.4	1.0	87.5	86.4	86.8	0.9	2.7	2.7	9.9	9.5	9.5
Leather and dressed furs		3.0	2.4	1.5	65.6	68.6	75.4	3.2	3.2	2.3	28.2	25.8	20.8
Wood, shaped or simply worked		0.6	0.3	0.8	67.2	63.2	58.8	4.8	2.1	3.8	27.4	34.4	36.6
Pulp		-	-	-	83.1	84.9	82.8	0.4	1.3	2.0	16.5	13.8	15.2
Yarn		1.0	0.5	0.2	95.0	93.8	92.2	0.2	0.2	0.2	3.8	5.5	7.4
Chemicals		6.4	4.4	2.4	85.5	87.3	89.2	1.3	2.9	2.9	6.8	5.4	5.5
Iron and steel		0.4	0.3	0.2	67.2	71.6	81.0	0.2	3.8	2.6	32.2	24.3	16.2
Processed non-metallic minerals		0.7	1.0	1.8	87.8	78.8	79.0	0.8	2.1	1.2	10.7	18.1	18.0
Final products		0.6	0.5	0.4	88.7	88.0	87.1	1.3	1.4	1.3	9.4	10.1	11.2
Foods and beverages		2.2	2.2	1.5	55.0	54.9	66.4	2.0	1.5	1.8	40.8	41.4	30.3
Canned fish		5.5	4.6	3.6	46.4	37.3	46.4	6.1	5.3	3.9	42.0	52.8	46.1
Cereal preparations		0.5	0.1	-	70.9	81.7	88.0	14.9	10.0	5.8	13.7	8.2	6.2
Canned fruit		3.2	3.0	2.9	35.6	40.6	51.2	0.3	0.7	1.9	60.9	55.7	44.0
Canned vegetables		4.3	3.9	1.9	54.8	66.5	66.7	1.6	1.3	4.5	39.3	28.3	26.9
Chocolate		11.5	12.7	8.2	81.0	85.1	88.1	2.5	0.4	0.9	5.0	1.8	2.8
Food preparations		0.5	2.9	0.2	84.3	53.1	90.9	1.4	-	0.2	13.8	44.0	8.7
Beverages		0.4	0.2	0.2	52.7	59.5	69.8	0.2	0.2	0.4	46.7	40.1	29.6
Leather manufactures		2.2	2.4	2.3	90.8	92.0	89.9	1.0	0.6	0.3	6.0	5.0	7.5
Footwear		2.5	1.8	0.7	82.7	73.7	66.3	4.0	3.8	2.5	10.8	20.7	30.5
Cotton fabrics		0.3	-	0.1	83.3	67.4	67.3	2.5	0.3	2.3	13.9	32.3	30.3
Fabrics of other fibres		0.2	0.3	0.1	70.8	77.3	74.5	0.6	1.8	0.8	28.4	20.6	24.6
Special fabrics		13.3	11.4	9.3	78.3	78.1	82.1	1.0	1.3	0.9	7.4	9.2	7.7
Ready-made clothing		1.4	1.0	0.7	65.3	71.1	66.1	1.0	2.1	3.9	32.3	25.8	29.3
Carpets		0.4	0.3	0.1	64.0	65.6	57.3	1.1	1.9	2.3	34.5	32.2	40.3
Clothing		1.2	.5	.1	83.6	69.4	69.2	1.4	2.0	1.4	13.8	28.1	29.3
Pharmaceutical products		5.1	3.2	2.9	90.0	92.0	92.6	0.8	0.8	0.9	4.1	4.0	3.6
Soaps and perfumes		0.9	-	-	91.0	98.8	99.1	-	0.3	2.2	8.1	0.9	0.7
Paints		0.1	1.6	-	98.0	94.8	97.7	-	1.2	0.7	1.9	2.4	1.6
Fertilizers		1.0	0.4	0.6	90.0	90.0	91.0	9.0	6.1	5.8	-	3.5	2.6
Glass, earthenware, etc.		0.1	0.1	0.3	75.4	80.9	81.4	9.9	6.5	5.9	14.6	12.5	12.4
Scientific instruments		0.1	0.2	0.1	96.2	94.3	90.8	1.2	0.9	1.0	2.5	4.6	8.1
Metal manufactures		0.1	0.1	0.1	96.4	93.6	90.7	0.8	0.7	0.6	2.7	5.6	8.6
Non-electrical machinery		0.1	-	0.1	98.5	98.0	97.3	0.6	1.0	1.0	0.8	1.0	1.6
Electrical machinery		-	-	0.1	96.7	96.7	89.0	0.5	0.8	0.7	2.8	2.5	10.2
Transport machinery		0.4	0.5	0.1	98.3	97.0	96.1	0.8	1.0	0.7	0.5	1.5	3.1
Other manufactures, n.e.s.		0.8	0.6	0.4	90.2	86.5	79.9	1.9	1.9	1.7	7.1	11.0	18.0

/metal manufactures,

metal manufactures, 3.5 to 9.2 per cent; rugs and carpets, 35.6 to 42.6 per cent; leather manufactures, 6.9 to 10.8 per cent; there were also increases for wood products, yarns, manufactures of non-metalliferous ores and many other semi-finished products.

The position of Mexico is worthy of special note, since that country effected a substantial diversification of its exports by introducing a wide range of manufactured and semi-manufactured goods.

4. Limited extent and slow development of geographical diversification of Latin America's foreign trade

As a result of Latin America's growing difficulty in expanding its trade with its traditional markets, for the various reasons considered above, it has become urgently necessary to seek new markets and intensify trade with other areas.

One of the main features of Latin American trade has been the high percentage of its exports to the western group of industrial countries. Table 60 gives the destination of Latin American exports since 1938, and shows how over a period of more than twenty years this trend has been maintained with only slight changes. In fact, three-quarters of Latin America's exports go to the United States and western Europe. Trade inside Latin America itself has remained within relatively modest limits, although in 1962, the first year when the tariff reductions agreed under the Latin American Free-Trade Association came into force, its share of total Latin American trade rose slightly compared with 1961. Trade with other developing areas has been practically negligible, representing less than 1 per cent of the total, and continues at a low level although there has been an increase recently in trade with the countries of eastern Europe.

This concentration of exports on the industrial countries with which the region has traditional trade, cultural and political links is typical of developing countries. For a long time now the western industrial countries have been the main purchasers of the agricultural products that constitute the basis of the trade of the developing countries. The very dependence of exports on these primary commodities, whose production is duplicated all over Latin America, is sufficient reason for the low level of intra-regional trade, and also for the low level of trade with other developing areas. Lastly, the area of the centrally planned economies, already industrialized, has only recently appeared on the scene as a possible large-scale buyer.

The prospects of intensifying trade within Latin America, with other developing areas, and with the centrally planned economies are analysed elsewhere in this study.

Table 61 compares the geographical distribution of the trade of the various regions of the world. It reveals the concentration of trade that can be regarded as typical of developing countries. But the comparison

Table 60
 LATIN AMERICA: DESTINATION OF EXPORTS
 (Percentage)

	Total	Latin America	Canada	United States	Western Europe			Eastern Europe	Japan	Other countries
					Total ^{a/}	EEC	EFTA			
1938	100	6	1	30	47	25	21	1	1	13
1948	100	9	2	37	35	19	17	1	1	14
1950-52	100	8	1	48	26	12	-	1	1	14
1955-57	100	8	1	44	29	15	-	2	2	15
1959-61	100	8	2	41	31	18	11	3	3	12

^{a/} Including countries that do not belong to either EEC or EFTA.

Table 61

DEPENDENCE OF EXPORTING AREAS ON THE MAIN MARKETS, 1961

(Percentage)

Exporting area \ Destination	Intra-regional trade	Trade with other areas		
		Western developed countries	Under-developed countries	Centrally planned economies
<u>Developing countries</u>	<u>21.0</u>	<u>74.0</u>	-	<u>5.3</u>
Africa <u>a/</u>	4.9	85.5	4.3	6.3
Far East (excluding Japan) <u>b/</u>	27.6	58.1	7.7	6.6
Latin America	6.6	83.1 <u>c/</u>	3.4	6.5
Middle East <u>d/</u>	10.9	68.6	11.9	6.1
<u>Centrally planned economies</u>	<u>68.5 <u>e/</u></u>	19.1	10.8	
<u>Developed countries</u>	<u>77.8</u>	-	<u>24.1</u>	<u>2.6</u>
EEC	36.8	37.9	20.9	3.8
EFTA	19.8	51.9	24.1	4.2
Japan	-	45.0	52.4	2.4
North America	25.5	38.9	26.7	1.3
Oceania and South Africa	4.8	72.8	14.7	5.8
Western Europe	59.9	13.8	21.4	4.6
<u>Total</u>	<u>100.0</u>	<u>64.4</u>	<u>22.1</u>	<u>11.6</u>

a/ Excluding South Africa but including the African countries in the Middle East.

b/ Excluding mainland China, Japan, Mongolia, North Korea and North Viet-Nam.

c/ Including exports to the Netherlands West Indies.

d/ Including all the countries of the Middle East (both African and Asian).

e/ Excluding intra-regional trade between mainland China, Mongolia, North Korea and North Viet-Nam.

/between the

between the various regions points to two unfavourable features peculiar to Latin America; the first is that the extent of the region's dependence on trade with the industrial countries of the West is second (and by a very small margin) only to that of Africa, among the developing areas of the world. The second is that the proportion represented by intra-regional trade is much less than in other developing areas, such as those in Asia, which have clearly been more successful in increasing intra-regional trade.

There is another feature peculiar to the geographical structure of Latin America's trade; if the figures for Cuba are subtracted from the total for trade with the centrally planned economies, in view of the fact that the Cuba's position cannot be considered typical for Latin America, the percentage of the region's trade with those countries drops to less than half of what it is for the other developing areas.

This excessive concentration of exports in only a few areas of the world indicates great weaknesses in the structure of Latin American trade. In the first place, the region is neglecting the opportunities for trade in large areas of the world. Secondly, the Latin American external sector does not have the flexibility needed to offset losses in some areas by gains in others, which means that the region is deprived of much of its bargaining power.

At the present time exports from Latin America to Eastern Europe, Asia (including Japan), Africa and Oceania are limited almost entirely to the basic export products, the main items (in order of importance) being cotton, sugar, wool, iron ore and maize to Japan; sugar, wool, coffee, hides, cacao, iron ore and linseed oil to Eastern Europe (this trade being divided fairly equally between Czechoslovakia, Poland and the Soviet Union, with a smaller share for East Germany); and cotton, coffee, tinned meats, sugar and tobacco to Asia, Africa, Oceania and the West Indies. A certain number of other products are also sent to the latter areas and to Eastern Europe, but the trade is irregular and on a small scale, and varies greatly from year to year.

As far as the industrial countries of the west are concerned, Latin American exports to the United Kingdom have fluctuated around absolute levels that have remained more or less stationary over the past fifteen years (850 million dollars in 1948, only 385 million in 1952, 670 million in 1956 and 1958, 740 million in 1960 and 695 in 1961), but Latin America's share of the total imports of these countries has declined. Latin American exports to the United States have also varied; although the percentages in 1948 and 1961 were almost the same (slightly over 39 per cent), higher levels were attained in intervening years (as much as 49.2 per cent in 1950-52).

Latin American exports to members of the European Economic Community, at least if expressed in current prices, have increased steadily, as shown in table 62. However, two important points should be borne in mind in assessing this increase. The first is the change in the structure of this

Table 62

LATIN AMERICA: EXPORTS TO THE EUROPEAN ECONOMIC COMMUNITY,
1937-38 TO 1961

(Millions of dollars at current prices)

	1937-38	1948	1950	1951	1958	1959	1960	1961
Temperate zone countries	290	440	333	376	374	409	471	457
Tropical zone countries	192	348	340	515	574	629	621	603
Countries exporting minerals and petroleum (excluding Venezuela)	77	67	69	114	182	237	285	296
Venezuela (petroleum)	25	41	50	57	162	137	137	174
<u>Total</u>	<u>584</u>	<u>896</u>	<u>792</u>	<u>1 062</u>	<u>1 292</u>	<u>1 412</u>	<u>1 514</u>	<u>1 545</u>

Sources: A study of trade between Latin America and Europe, (United Nations publications Sales N°: 1952 II. G. 2).
Economic Bulletin for Latin America, Statistical Supplement, Vols. V and VI. (1960 and 1961).
Direction of international trade.

/trade. If

trade. If 1958, the year when the Common Market was established, is taken as the starting point, it is clear that a substantial part of the increase is for mineral-exporting countries, and that there is a corresponding lack of expansion in exports from countries that supply tropical agricultural products. This is one more indication of the effect of the discriminatory measures referred to earlier.

The other point is that the increase in the absolute levels of Latin American exports to the Common Market have not kept pace with the expansion of the economic activity and total foreign trade of the EEC members. A study of the imports of food and other basic products by the Community shows that the bulk of the increase between 1958 and 1960 was supplied by trade between its members, whose share in the total increased from 19 to 22 per cent; during the same period the share of imports from North America remained the same (14 per cent), and so did that of the centrally planned economies (5 per cent), while the Latin American share declined from 10 to 9 per cent between 1958 and 1960, after having reached 11 per cent in 1953. For 1961, tables 63 and 64 provide more details on Latin American exports, classified by destination.

Table 63
 MAIN MANUFACTURED PRODUCTS EXPORTED BY LATIN AMERICA, 1961
 (Value in millions of dollars)

Product	World	Latin America	United States	Canada	Japan	Western Europe	Eastern Europe	Other
Food products	326.5	37.5	162.6	5.3	4.3	110.4	0.8	5.6
Refined sugar	101.0	8.9	86.8	-	2.4	0.9	-	2.0
Canned meat	90.3	18.9	30.0	2.0	-	46.1	-	1.3
Cocoa paste	18.7	-	7.1	1.1	-	9.6	0.4	0.5
Canned fish	12.0	0.3	6.1	0.9	-	4.1	-	0.5
Butter	8.6	2.6	-	-	-	6.0	-	-
Canned fruit	7.4	1.2	3.6	0.5	-	2.0	-	0.1
Coffee extracts	7.2	-	6.4	-	0.2	0.6	-	-
Chocolate	5.6	-	5.4	-	-	-	-	0.2
Margarine and lard	5.1	4.7	-	-	-	0.4	-	-
Canned vegetables	5.1	0.3	4.6	-	0.1	0.1	-	-
Cereal flour	3.3	2.0	-	-	-	1.3	-	-
Cheese	3.0	1.8	1.0	-	-	0.1	-	-
Fruit juice	2.5	0.1	1.4	0.2	-	0.5	-	0.3
Condensed milk powder	1.3	1.3	-	-	-	-	-	-
Sugar confectionery	1.0	0.9	0.1	-	-	-	-	-
Animal feeding stuff (fish meal)	53.4	2.1	9.7	0.5	1.6	38.6	0.3	0.6
Other	1.0	0.4	0.4	0.1	-	0.1	0.1	0.1
Alcoholic beverages	3.9	.6	1.1	0.1	-	1.4	-	0.7
Rum	1.2	-	0.3	0.1	-	0.3	-	0.5
Wine	0.5	0.2	0.1	-	-	0.2	-	-
Other	2.2	0.4	0.7	-	-	0.9	-	0.2
Tobacco manufactures	1.0	0.4	0.2	-	-	0.4	-	-
Oils and fats	133.1	6.9	21.2	0.4	0.2	94.2	6.5	3.6
Of vegetable origin	115.5	4.1	19.8	0.4	0.2	81.0	6.3	3.6
Of animal origin	17.6	2.8	1.4	-	-	13.2	0.2	-
Petroleum products	623.5	65.4	261.8	22.4	1.0	111.8	-	161.1
Chemicals	21.7	15.7	54.0	0.3	0.7	17.7	0.5	2.8
Medicinal products	21.0	6.8	7.0	0.1	-	5.7	-	1.4
Casein	10.8	0.5	6.4	-	0.4	3.5	-	-
Essential oils	7.9	0.1	3.9	-	0.1	3.6	0.2	0.1
Explosives	1.9	1.9	-	-	-	-	-	-
Insecticides	1.3	0.8	0.4	-	-	0.1	-	-
Acids	1.3	0.3	0.5	0.1	-	0.4	-	-
Glycerine	1.2	0.1	0.1	-	-	0.6	-	0.3
Gluten	1.2	-	-	-	-	0.8	-	0.4
Perfumes	1.2	1.0	-	-	-	-	-	0.1
Paints	1.2	1.0	-	-	-	0.1	-	0.1
Other	42.7	3.2	35.7	0.1	0.2	2.9	0.3	0.4
Leather and leather products	8.2	1.1	3.4	0.1	0.1	3.0	0.2	0.4
Leather	5.2	0.5	1.5	-	-	2.7	0.2	0.4
Dressed furs	2.1	0.2	1.5	-	0.1	0.3	-	-
Leather manufactures	0.9	0.4	0.4	0.1	-	-	-	-
Paper and wood, and their manufactures	16.7	12.2	3.4	-	-	0.6	-	0.5
Printed matter	6.7	5.3	0.7	-	-	0.5	-	0.2
Pulp and paper	6.5	6.4	-	-	-	-	-	0.1
Wood manufactures	1.9	0.3	1.4	-	-	0.1	-	0.1
Wood, simply worked	1.6	0.2	1.3	-	-	-	-	0.1
Rubber products	2.0	2.6	0.4	-	-	-	-	-
Textiles	72.5	8.3	25.6	0.9	0.5	21.1	0.5	15.6
Yarns	28.0	2.7	1.9	-	0.3	20.3	0.5	2.3
Cotton fabrics	11.4	1.9	0.4	-	-	0.1	-	9.0
Cotton yarns	4.3	0.3	0.7	0.1	-	0.2	-	3.0
Wool fabrics	2.6	0.8	1.1	-	-	0.1	-	0.6
Ready-made clothing	2.1	1.3	0.5	-	-	0.2	-	-
Other yarns	20.3	0.6	18.5	0.2	0.2	0.2	-	0.6
Other fabrics	3.8	0.7	2.5	0.5	-	-	-	0.1

/Table 63 (concluded)

Table 63 (concluded)

Product	World	Latin America	United States	Canada	Japan	Western Europe	Eastern Europe	Other
Clothing	<u>2.6</u>	<u>1.5</u>	<u>0.9</u>	-	-	-	-	<u>0.1</u>
Cotton	0.4	0.2	0.2	-	-	-	-	-
Other	2.2	1.3	0.7	-	-	-	-	0.1
Footwear	<u>1.4</u>	<u>0.2</u>	<u>1.1</u>	-	-	-	-	-
Non-metallic mineral manufactures	<u>15.8</u>	<u>2.9</u>	<u>7.1</u>	-	<u>0.1</u>	<u>0.7</u>	-	<u>3.8</u>
Cement	6.9	2.0	1.2	-	-	-	-	3.6
Bricks and tiles	3.1	0.2	2.8	-	-	-	-	0.1
Glass manufactures	1.9	1.4	0.4	-	-	0.1	-	-
Glass	1.0	0.2	0.7	-	-	-	-	-
Other	2.9	0.1	1.9	-	0.1	0.6	-	0.1
Worked metals	<u>575.8</u>	<u>12.3</u>	<u>225.8</u>	-	<u>10.2</u>	<u>325.2</u>	-	<u>2.3</u>
Iron and steel	<u>11.5</u>	<u>2.6</u>	<u>4.4</u>	-	<u>1.6</u>	<u>2.9</u>	-	-
Tubes	3.8	0.7	3.1	-	-	-	-	-
Sheets, bars and plates	3.2	0.4	1.2	-	1.6	-	-	-
Wire	1.3	1.2	0.1	-	-	-	-	-
Other simply worked product	3.2	0.3	-	-	-	2.9	-	-
Non-ferrous metals	<u>564.3</u>	<u>9.7</u>	<u>221.4</u>	-	<u>8.6</u>	<u>322.3</u>	-	<u>2.3</u>
Copper bars and plates	259.6	3.5	56.7	-	4.3	194.3	-	0.8
Copper, blister	188.2	1.3	129.5	-	-	57.3	-	0.1
Tin, worked	43.2	1.2	6.1	-	-	35.9	-	-
Lead, worked	30.1	0.5	16.1	-	2.6	9.9	-	1.0
Silver	14.8	0.1	2.1	-	0.8	11.8	-	-
Lead, unroughed	13.9	1.0	5.4	-	0.8	6.7	-	-
Zinc, worked	11.8	2.1	3.1	-	0.1	6.3	-	0.2
Other metals, simply worked	2.7	-	2.4	-	-	0.1	-	0.2
Metal manufactures	<u>5.2</u>	<u>3.6</u>	<u>1.1</u>	-	-	<u>0.2</u>	-	<u>0.3</u>
Household utensils	1.3	1.0	0.2	-	-	-	-	0.1
Containers	1.1	0.6	0.5	-	-	-	-	-
Cable and wire	0.7	0.7	-	-	-	-	-	-
Other	2.1	1.3	0.4	-	-	0.2	-	0.2
Machinery	<u>18.2</u>	<u>12.0</u>	<u>4.0</u>	<u>0.2</u>	-	<u>1.6</u>	-	<u>0.4</u>
Electrical machinery	3.4	2.5	0.6	-	-	0.2	-	0.1
Pumps	1.5	1.3	-	0.2	-	-	-	-
Agricultural machinery	1.0	0.4	0.6	-	-	-	-	-
Office machinery	0.6	0.4	0.2	-	-	-	-	-
Power-generating machinery	0.5	0.2	0.2	-	-	0.1	-	-
Metal-working machinery	0.3	0.2	-	-	-	0.1	-	-
Other non-electrical machinery	10.6	6.8	2.4	-	-	1.2	-	0.2
Transport equipment	<u>13.6</u>	<u>6.4</u>	<u>4.4</u>	<u>0.1</u>	-	<u>2.4</u>	-	<u>0.2</u>
Motor vehicles	6.3	4.4	1.6	-	-	0.1	-	0.2
Aircraft	5.8	0.7	2.7	0.1	-	2.3	-	-
Ships and boats	1.1	1.0	-	-	-	-	-	-
Railway rolling-stock	0.3	0.2	0.1	-	-	-	-	-
Non-motorized vehicles	0.1	0.1	-	-	-	-	-	-
Miscellaneous manufactured articles	<u>9.3</u>	<u>4.1</u>	<u>4.5</u>	<u>0.1</u>	-	<u>0.4</u>	-	<u>0.2</u>
Musical instruments	1.9	0.8	0.9	-	-	0.1	-	0.1
Film	1.4	0.9	0.3	-	-	0.2	-	-
Furniture	0.9	0.4	0.4	-	-	-	-	0.1
Scientific instruments	0.7	0.4	0.2	0.1	-	-	-	-
Other	4.4	1.6	2.7	-	-	0.1	-	-

Table 64

PERCENTAGE DISTRIBUTION OF MANUFACTURES EXPORTED BY LATIN AMERICA, BY DESTINATION AND BY GROUPS OF PRODUCTS, 1961

(Percentage)

Group	Destination							
	Latin America	United States	Canada	Japan †	Western Europe	Eastern Europe	Others	Total
Foods, beverages, tobacco	11.7	49.4	1.6	1.3	33.9	0.2	1.9	100
Intermediate products	7.1	59.9	0.8	2.3	27.8	0.4	1.7	100
Final products	17.3	36.5	2.6	0.1	41.4	-	2.1	100
Oils and fats	5.2	16.0	0.3	0.2	70.7	4.9	2.7	100
Petroleum products	10.5	42.0	3.6	0.2	17.9	-	25.8	100
Wood, paper, printed matter	79.2	14.2	0.2	-	3.8	-	2.6	100
Ores	18.7	45.9	0.1	0.6	4.9	-	29.8	100
Worked metals	2.2	39.4	-	1.8	56.2	-	0.4	100
Chemicals	17.2	58.8	0.4	1.8	19.3	0.5	3.0	100
Intermediate products	6.3	71.9	0.2	1.1	18.1	0.7	1.7	100
Final products	43.3	27.8	0.7	-	22.0	-	6.2	100
Textiles	11.6	35.1	1.3	0.7	29.1	0.7	21.5	100
Yarn	6.9	40.0	0.7	1.0	39.3	0.9	11.2	100
Fabrics, etc.	24.1	22.3	2.9	-	2.0	0.1	48.6	100
Clothing	55.9	34.7	0.4	0.1	2.2	1.2	5.5	100
Footwear	14.7	82.7	0.4	-	0.3	-	1.9	100
Metal manufactures and machinery	59.3	25.7	0.9	0.1	11.5	0.1	2.4	100
Other products	34.4	46.6	0.8	0.6	13.6	0.8	3.2	100
<u>Total</u>	<u>10.1</u>	<u>40.8</u>	<u>1.6</u>	<u>0.2</u>	<u>35.9</u>	<u>0.4</u>	<u>10.3</u>	<u>100</u>
Intermediate products	6.6	42.2	1.5	1.0	37.2	0.5	11.0	100
Final products	32.1	32.4	1.9	0.1	27.4	0.1	6.1	100



Chapter III

FUTURE PROSPECTS AND LINES OF ACTION

A. LATIN AMERICA'S FUTURE IMPORT NEEDS AND PROSPECTS IN RESPECT OF TRADITIONAL EXPORTS

In previous sections an attempt was made to define the characteristics of a problem, already widely known in general outline, that has severely restricted fulfilment of the Latin American peoples' desire for economic expansion and better living conditions. Some basic facts have thus been brought to light, in particular the close relationship existing between foreign trade and the whole complex of Latin America's economic development, the unfavourable trends registered by such trade in the past and the factors responsible for its unsatisfactory behaviour.

It would be as well now to project into the future that combination of background data and experience in order to forecast the form the problem will presumably take unless various energetic and timely decisions are taken that will lead to a far-reaching revision of the conditions under which international trade is developing.

Based on the estimates in chapter I of Latin America's import requirements in the next few years, and on the projections and hypotheses contained in that chapter, the area's import needs are likely to increase from 8,000 million dollars in 1960 to 12,000 million in 1966 and to 15,000 million by 1970. These requirements will be hard to fulfil unless simultaneous action is taken in several fields, since satisfactory solutions are not likely to be found if the over-all problem is only tackled in part. This is due as much to the extent of the problem itself as to the time factor. For example, the strengthening of traditional export flows may depend largely on administrative measures and the diversification of markets, and consequently results might be expected within a relatively short space of time. On the other hand, to extend the range of those exports - by incorporating increasing quantities of manufactured and semi-manufactured goods - and to expand trade substantially within the region itself are factors whose results can be assessed only after a longer period of continuous effort.

Both these alternatives entail decisions, agreements and specific action - at the world, regional and national level - the significance and scope of which can be evaluated only through a somewhat more detailed examination of the way in which Latin America could meet its future import requirements. It would be best, therefore, to begin with some considerations regarding what Latin America might expect from its traditional trade flows in terms of commodities and markets if the existing conditions and patterns affecting them are maintained.

/In view

In view of the widely varying nature of specific situations, the problem should first be examined from the standpoint of specific commodities or groups of commodities. To this end, it might be sufficient, perhaps, to confine it to the group of Latin American exports whose aggregate value in 1959-61 was over 6,200 million dollars, or almost 80 per cent of total exports from the region. This group comprises coffee, cacao, bananas, cotton, sugar, fish meal, wheat, meat, maize, wool, linseed oil, petroleum and petroleum products, tin, copper, lead, zinc and iron ore.

1. Coffee, cacao and bananas

The main traditional markets for Latin America's coffee, cacao and bananas are the United States, United Kingdom and the EEC countries. The United States increase in consumption of these three commodities after the Second World War was the factor determining the improved position of the Latin American exporting countries concerned. In the past four or five years, however, consumption has tended to remain at a standstill because of the relatively high levels already attained. In addition, commodities such as coffee, and above all bananas, have a very low income-elasticity of demand.

Since the United States does not apply customs duties or internal taxes to these commodities, the demand for them is not limited artificially and consumption is, thus, likely to increase only in terms of the country's population growth. Therefore, markets other than the United States must be sought if Latin American exports of these three important commodities are to expand more rapidly.

Prospects in other important markets do not seem too encouraging, however, unless radical changes are introduced in the restrictive measures in force (see chapter I). Although Latin America's share of the EEC's coffee imports increased somewhat more than did Africa's share, it must be borne in mind that if the quantitative discrimination applied by France was also imposed by the other member countries of the Community, this would have a highly adverse effect on Latin American exports to these countries. If, on the other hand, the latter engage in discrimination only through the medium of tariffs and at the agreed rate (9.6 per cent preference in favour of the associated States) for a reasonable period of time, Latin America could continue to share in their increased coffee consumption, to the same extent as it does today. Moreover, consumption could rise considerably if the heavy domestic taxes in force in many countries were removed, an action which would be of benefit to every exporting country in the world.

In so far as the United Kingdom market is concerned, Latin America's share, which is very small indeed, is unlikely to increase appreciably in the next few years as long as the Commonwealth continues to receive preferential treatments.

/Besides these

Besides these considerations concerning the prospects for increased coffee exports mention should be made of the other determining factor of coffee's foreign exchange earnings, namely, prices. The International Coffee Agreement, which came into force in 1962, has not hitherto affected prices, and its effectiveness in this respect will depend on the Latin American countries' compliance with the quotas allocated to them. In the meantime, deterioration in the terms of trade has already resulted in recent years in a very serious setback for the producing countries and might perhaps continue to be the prime factor adversely affecting coffee prospects.

As regards cacao, Latin America's export possibilities are even more restricted. Declining prices in the last few years have shrunk producer's profits to levels that discourage production and Latin America has gradually lost its importance, in both absolute and relative terms, as a world supplier of cacao. By contrast, the preferences enjoyed in the EEC by its African associates have to a certain extent mitigated the effect of the drop in prices and provided them with sufficient incentive to continue to modernize production and to raise output by replanting and taking steps to control coffee blight.

To sum up, the relative stagnation of the United States market and the effect of discriminatory practices by the United Kingdom and the EEC - which for bananas could signify a marked contraction of the West German market - lead to the conclusion that Latin America's export prospects in respect of these three tropical commodities are far from promising.

2. Sugar and cotton

As pointed out in chapter II, the decline in world sugar production and the shift in Cuba's export markets have altered the whole situation with respect to this commodity. Prices, which before 1962 were at a very low level compared with other years, doubled in 1963, while stocks fell sharply. Encouraged by the incentive represented by higher prices and the redistribution of Cuba's quota in the United States market, the other Latin American producing countries increased their sugar output.

The United States Sugar Act, which has such important implications for Latin America in regard to this commodity, was amended in July 1962. By virtue of this amendment, the proportion of sugar requirements to be covered by domestic production was raised from 53.5 to 59.9 per cent, and the domestic contribution to increased consumption from 55 to 65 per cent.

Under the terms of the original Act, the major quota had been allocated to Cuba. This is now reduced to nearly half, but its application has remained in abeyance pending resumption of diplomatic relations between the two countries. The Philippines absorbed another large quota, which has been increased since Cuba's quota was suspended. Peru, the

/Dominican Republic,

Dominican Republic, Mexico, Nicaragua, Costa Rica, Haiti and Panama were all allocated quotas under the original Sugar Act, and these have now been increased. Colombia, Ecuador, Guatemala, El Salvador and Paraguay, besides other non-Latin American countries, now receive quotas under the amended Act.

Imports subject to the quota system are paid for in the United States at the same price as that received by local producers whose production costs are higher. Accordingly, countries that are allocated quotas enjoy the advantage of being paid higher prices than those quoted on the world market when these happen to be lower than the local price in the United States, as has occurred up to 1963.

The amended Act introduced another new feature: the global quota. This quota which, under normal conditions of consumption, amounts to 1.4 million tons, will be open to all countries which are net sugar exporters and with which the United States maintains diplomatic relations. Sugar imported within the global quota is subject to higher customs duties than those ruling for country quotas and will be purchased at world prices.

Notwithstanding the fact that the new provisions of the United States Sugar Act represented a reduction in the quota assigned to Latin America (including Cuba) up to 1962, the short-term prospects for this commodity appear to be fairly good. High prices mean more revenue for the producers and this, in turn, encourages greater output. This situation will continue until world sugar production again matches consumption as was the case before the destination of Cuba's sugar exports was changed.

The cotton trade is one which encounters very few obstacles. Countries like Italy and France, which maintain tariff or quantitative restrictions, are now abolishing them. Nevertheless, world trading conditions have not been too favourable of late, particularly by reason of falling prices. Latin America - considered on an equal footing with the other world producers of this commodity - has rapidly increased its cotton exports and in all probability this trend will continue in the future, notwithstanding the limitations imposed by sales of United States cotton through subsidies and special terms of payment under Public Law 480, and the low price levels registered in recent years.

3. Wheat, maize and meat

Wheat export prospects for the next few years are not very encouraging. The high price supports fixed by the industrialized countries for domestic production make it possible to mechanize activities on an increasing scale and to extend the use of fertilizers and pesticides, all of which make for higher output per hectare. Moreover, income-elasticity of demand for this commodity is exceedingly low and sometimes even negative, which excludes any prospect of substantial increments in consumption in the developed countries. Furthermore, the United States and French policy

/of selling

of selling surpluses at subsidized prices coupled with the various financing schemes applied to wheat sales, increasingly hamper wheat exports by countries which do not subsidize sales.

Heretofore, Argentine wheat has maintained its sales position because it is much better than European wheat for manufacturing bread. Nevertheless, the competition offered by hard wheats from Canada and the United States, and Turkey's intention of placing hard wheats in the European Common Market, also constitute a threat to that position.

As regards possibilities in other markets, wheat supplies from Argentina and Uruguay to the developing countries in Latin America or other areas have fallen to insignificant proportions as a result of United States wheat sales under Public Law 480. Prospects that might be created by the present shortage of wheat in countries with centrally planned economies are also uncertain, firstly owing to competition from countries in a position to subsidize their production and finance their sales and, secondly, because of the uncertainty as to how long the countries with centrally planned economies will continue to buy wheat, both for balance of payments reasons and because they may very well expand their own production.

On the other hand, conditions for maize are considerably better than for wheat. The developed countries have followed a less active policy in pursuit of self-sufficiency than in the case of wheat. This policy is aimed at supplying cheaper feed for domestic producers of meat (pork, beef and poultry). Neither have United States sales of maize surpluses on the world market been so aggressive, although here too subsidies and special financing conditions are offered. None the less, maize prices are very low and are likely to remain so, since only if it is cheap can maize replace other forage and maintain or increase its present volume of sales.

Prospects for meat exports to the United States are also favourable, on condition that Argentina, Uruguay and Paraguay succeed, as Mexico has done, in eradicating foot-and-mouth disease, which hampers their access to the United States market. Prospects in Europe, on the other hand, do not appear promising. In fact, as long as the EEC countries maintain their policy of self-sufficiency in respect of agricultural commodities, all that can be expected is continuation of the present volume of exports to those countries. The United Kingdom market - which represents over half Argentina's and Uruguay's combined market for beef - is unlikely to expand in the future; on the contrary, it may even contract both because of the United Kingdom's policy of self-sufficiency and the fact that it may join the European Common Market.

4. Wool and linseed oil

Wool exports may be expected to remain at the same level for the next few years. Although the international market can absorb more wool, and competition from man-made fibres is not likely to have an adverse effect on wool sales in the near future, prospects for a substantial increase in Latin America's output appear somewhat remote, particularly since very little fertilizer is used in Latin America on land devoted to the breeding of sheep and goats.

Argentina is the main producer and exporter of linseed oil in the region. While increasingly less land suitable for cultivation of temperate commodities is being sown to wheat, larger areas are being sown to maize and flax. This redistribution of crops reflects the behaviour patterns of the different world commodity markets. Charges are levied on linseed oil in order to prevent its entry into the developed countries, thereby protecting imports of the seed itself. The United States, moreover, offers competition in this commodity in the form of sales on non-commercial terms. Nevertheless, the fact that the terms are less severe than in the case of wheat is an inducement to devote more land to this crop. In these circumstances, exports of linseed oil are expected to increase in the next few years.

5. Fish meal

Fish meal and iron ore are the only two important commodities which Latin America has succeeded in developing as new export lines during the past decade, the main beneficiaries being Peru and Chile.

Fish meal consumption has expanded considerably in recent years in view of its use as feed for poultry and pigs. However, as world production has been growing at a faster pace than consumption, certain fears may be entertained for the future evolution of prices.

In addition, import restrictions exist in a number of countries. Thus, the customs tariffs in the Federal Republic of Germany is 5 per cent, and in France 9 per cent. There is a discriminatory tariff of 10 per cent in the United Kingdom in favour of the Commonwealth and Ireland. Italy enforces a 9 per cent discriminatory tariff in favour of the EEC countries. The United States, on the other hand, applies no restrictions whatever. Although these discriminatory practices and restrictions hamper the expansion of Latin American exports, they are less intensive than those in force for other commodities. It is therefore expected that the coming years will witness continued expansion of these exports, aided by natural fishing conditions and low production costs, particularly in Chile and Peru.

/6. Mineral

6. Mineral ores and fuels

The export prospects for mineral ores and fuels, although they involve serious problems, are more encouraging.

This is true, in the first place, of petroleum exports, since world consumption is expanding. As a result prices are becoming firmer, after some weakening. However, exports of petroleum from Venezuela may have greater difficulty in future in entering the United States market because of the restrictions resulting from the establishment in that country of an import quota for crude petroleum. Another unfavourable sign for Latin American exports is that the increase in domestic consumption in Colombia and Peru is greater than the increase in production, and the exportable surpluses of those countries are therefore shrinking. Exports from Mexico, on the other hand, are expanding.

As for copper, world prices continue to fluctuate, although recently there have been some increases resulting from the expansion of economic activity in Europe. As the prices and export volumes of copper, lead and zinc are determined by the general activity of the economies of the developed countries, continued economic expansion in the EEC countries in the next few years may lead to more sales and stable prices.

World production of tin, on the other hand, is below demand, and this has led to price rises and has encouraged production. An increase in tin production in Bolivia can be expected in the next few years. However, the liquidation of strategic reserves of tin by the United States, and the using up of the stabilizing reserve administered by the International Tin Council, both constitute guarantees that funds will be available for the purchase of tin if prices undergo another decline in the next few years. The rise in tin prices resulting from these factors has been so great that it may encourage the appearance of substitutes and threaten the potential market for tin. The most effective method of preserving the use of tin for all its present applications seems to be to increase the supply.

On the other hand the rapid expansion in the production and export of iron ore from Latin America and other developing areas seem to be coming to an end, since the recent price falls may well mean that the market has reached saturation point. This view is strengthened by the discovery of new deposits in the developing areas, and the spread of new steel production techniques in the developed countries, which permit use of deposits that were formerly considered impossible to exploit on an economic basis.

Although consumption of lead and zinc are determined by the economic expansion of the large industrial countries, a study of recent trends in Latin American exports does not provide any great grounds for optimism as regards the prospects for these metals.

7. Tentative projection of Latin American exports

Thus far the considerations set forth have related to the main products and groups of products of Latin America's traditional exports, and hence have been of a very general nature. The next step is to sum up all these facts, together with other supplementary data, in the form of a quantitative evaluation that will permit comparison of the export prospects with the total import requirements of the Latin American economies referred to at the beginning of the present section.

Any projection of this type is attended by very great risks, since it involves recourse to criteria that are open to question, and reliance on a number of relatively subjective considerations. However, since the aim here is not to make forecasts, but merely to bring into sharp focus the nature and scale of Latin America's foreign trade problems, it seems justifiable to work out a reasonable hypothesis, dealing with high orders of magnitude, as to what the situation is likely to be if there are no significant changes in the conditions of world trade to which reference has already been made.

Strictly with this aim in mind, and subject to the above qualification, a very general idea is put forward in table 65 of what Latin America's export might be up to 1970, if present world trade conditions continue unchanged. On the basis of these figures, which in many cases reflect a rather optimistic view, ^{1/} total Latin American exports will increase from nearly 8,000 million dollars, the average for the three-year period 1959-61, to slightly over 10,000 million dollars in 1970. It hardly needs pointing out that such an exiguous growth of the traditional exports is bound to increase the serious foreign trade problems that already confront Latin America, and completely rules out any hope, however modest, of maintaining a steady growth in the region's per capita income levels.

^{1/} Constant prices up to 1970 have been assumed. This represents a significant change in the past trend, which was marked by a steady decline in the prices of most primary commodities. In most cases a conservative growth rate has been postulated: for coffee, in view of the foreseeable effect of the preferences granted by the EEC, the estimated rate is 1.6 per cent a year, which is two-thirds of that forecast by FAO for total demand; for bananas the rate is 2.2 per cent a year, which is the average for the periods 1948-52 and 1958-62; for wool a growth rate of 15 per cent up to 1970 has been assumed, which is the same as the minimum increase in wool imports calculated by FAO; for the other temperate commodities the growth rate assumed corresponds to the demand as affected by the restrictions imposed in the principal markets and by competition with other exporters who are subsidized or receive other special protection.

Table 65

LATIN AMERICA: PROJECTION OF EXPORTS TO 1970

(Millions of dollars at 1959-61 prices)

Product	1959-61	1970
Tropical products <u>a/</u>	2 245	2 780
Temperate-zone products <u>b/</u>	865	1 090
Mineral ores and fuels <u>c/</u>	3 080	4 025
Other products	1 767	2 265
Total <u>d/</u>	7 957	10 160

a/ Coffee, cacao, bananas, cotton and sugar.

b/ Wheat, maize, meat, wool and linseed oil.

c/ Copper, lead, zinc, iron ore, tin, and petroleum and petroleum products.

d/ Excluding Cuba, because of the lack of data.

B. THE POSSIBILITY OF DIVERSIFYING EXPORTS

Even with the most favourable possible world market conditions, Latin America can hardly expect that expansion of its traditional trade flows alone will increase its import capacity sufficiently to meet the requirements of its economic development. It is therefore essential that certain changes be made in the foreign trade policy of the main industrial countries, and that new markets be opened up, sufficient to remedy the situation, at least temporarily, by providing opportunities of selling a larger volume of primary commodities abroad at better prices. These are, of course, merely the basic requirements for fending off a crisis of which signs are already appearing in Latin America, and which might reach uncontrollable proportions in the next few years. However, despite the importance of such measures, they cannot provide the basis for a permanent solution of the problem, which calls for new trade structures with greater diversification of Latin American exports, providing for the inclusion of manufactured and semi-manufactured products.

It should be stressed that this is a matter not of alternative but of complementary solutions. Progressive diversification of exports is a process that urgently needs to be undertaken, but that cannot be expected to yield significant results within a short period. Meanwhile primary commodity exports will have an essential part to play in this transition to new trade structures, under the stimulus of new markets and the expansion of traditional markets through the removal of the obstacles, restrictions and discriminations that exist at present. This removal, will, in turn alleviate immediate difficulties, but will amount to no more than a postponement of a final solution, since the very nature of primary commodities inevitably determines a growth rate slower than that of the import requirements of the developing economies.

Consequently these considerations point to the need for a fairly detailed consideration of the existing prospects that Latin America, and the other developing areas, can succeed in maintaining a substantial flow

/of exports

of exports of manufactured and semi-manufactured products. 2/

One very important point is that the continuation and further expansion of industrialization in Latin America are required not only as a contribution in overcoming foreign trade problems, but also as essential elements in solving other basic development problems in the region. One of these is the efficient use of manpower.

The present labour force in Latin America is estimated at 70 million, and the estimated annual average growth rate in this labour force is 3 per cent. These figures imply the need for the creation of over 2.1 million jobs a year in Latin America. The magnitude of this requirement can be illustrated by comparing it, for example, with the annual increase in the economically active population of the United States, which is less than 1.6 million. It can easily be imagined how great an effort is needed to effect the increase in the domestic product, and in the investment and export coefficients, if such an addition to the labour force is to be absorbed in gainful employment.

2/ Strictly speaking, a discussion of diversification of exports should also take account of other possibilities, mainly relating to certain items of invisible trade. However, this raises problems of a very special nature, beyond the scope of the present document. Thus the omission of more detailed references to this point must not be attributed to any under-estimation of its importance, especially in view of the fact that world trade in invisibles has, in recent years, represented about 28 per cent of total world trade (this figure is for 1958, and is taken from "World trade in invisibles", by Ely Devons, in Lloyds Bank Review).

Furthermore, earlier sections of this paper have dealt with the Latin American situation as regards one of the most important components of this trade, namely maritime transport. Another main component, the tourist trade and travel costs, is expanding with surprising rapidity, as can be seen from the fact that in the balance of payments for a large number of countries credits under this item increased from 1,961 million dollars in 1950 to 4,359 million in 1958. In that year this one component accounted for a figure approximately equal to that for world trade in chemical products, and much higher than the figure for textiles, and its growth rate was higher than that for a trade sector as dynamic as industrial machinery and transport equipment. Obviously Latin America could benefit from these transactions to a much greater extent than in the past.

Similar considerations would apply to the insurance trade, another important component of the trade in invisibles.

/In the

In the past Latin America has not been able to meet these requirements, and the result has been the distortion of the structure of employment through a disproportionate share of employment in the services sector, including some services of scant social value. In these circumstances the past industrial growth rate of 6 per cent a year has not been sufficient to solve the employment problem. The rate of capital formation in industry has been insufficient to speed up this growth rate, and in addition the very technology used in the mostly rapidly developing industrial branches contributes to this result, since it is often governed by labour-saving criteria which, while appropriate for the industrialized countries, are much less justifiable when transplanted to developing areas.

This is not the place for a detailed consideration of such problems, but they are mentioned here merely to make it quite clear that the industrialization of the Latin American economies is a vital over-all target, and does not relate only to questions of foreign trade.

Recognition of this target is not enough; it is important to study the practical possibility of attaining it. For this purpose certain basic points must be examined that relate mainly to the possible contribution of Latin American manufactures to the markets of the industrial countries, and the region's ability to develop a regular flow of exports of such products.

1. The demand for manufactures in the industrial countries

As pointed out in a previous section, the figures involved have a very different impact in the industrial countries and in the developing areas. This becomes very clear when the question arises of the prospects for the developing areas of supplying certain manufactured or semi-manufactured products to the industrial countries.

As mere mention of this possibility is enough to arouse resistance, it must be placed in its true perspective from the outset. In recent times Latin American exports of manufactured products of all types (including traditional products exported after a very slight degree of processing, and trade between the Latin American countries themselves) has been in the region of 2,000 million dollars. At the same time, purchases of durable and non-durable goods in 1960 by consumers in the United States alone amounted to about 250,000 million dollars; tobacco and motor cars alone accounted for 7,000 million dollars, which is ten times the value of all manufactures imported by the United States from Latin America.

The combined gross domestic product of the industrial countries was valued in 1961 at 826,000 million dollars, and their total imports of manufactured goods from all sources was 47,000 million dollars, or 5.8 per cent of the value of their gross domestic product. Imports of manufactures from Latin America amounted to only 1,500 million dollars (excluding refined sugar), a coefficient of only 0.17 per cent of the

/gross domestic

gross domestic product. 3/

Furthermore, the question is not one merely of the present level of the product and demand for manufactured goods of the industrial countries, but also of the growth rate of these two variables. Strictly by way of illustration, it may be estimated that the product could amount to some 1,175,000 million dollars in 1970, and the supplies of manufactures to 660,000 million dollars. 4/

Thus in view of the above figures, a Latin American share in supplying these imports of manufactured products on a scale sufficient to overcome its potential trade deficit, that is, additional exports of manufactures to the value of approximately 4,000 million dollars, which would provide an effective solution of the region's problems in the absence of other factors, would represent, up to 1970, only 1 per cent of the total supply of manufactures to the industrial countries.

These are the terms in which the problem can be stated. The opening of the market provided by the industrial countries to manufactures from developing areas, on a scale that would represent no more than a fraction of the increase in their total consumption, would mean, for the developing countries, a decisive step towards solving their foreign trade problems, and thus their difficulties in achieving economic growth.

However, matters cannot simply be reduced to global ratios such as these. Although competing manufactures from under-developed areas would constitute only an insignificant proportion of total supply in these markets, they could lead to difficult situations as regards particular industries in the industrial countries, since there is a high concentration on a few products in this type of export. Nevertheless, this is merely a problem of methods and safeguards that would not be difficult to work out, once the essential facts were recognized.

3/ The gross domestic product includes other sectors, as well as manufactures (such as agriculture, mining, construction, services, etc.). In addition, the figures are given in terms of values added, and are therefore not strictly comparable with trade figures. If the manufacturing sector only is considered, and if production is expressed in terms of gross value (to permit a most accurate comparison with imports) the total supplies of manufactures available for 1961 in the industrial countries (either for home consumption or for export) can be estimated at 430,000 million dollars, compared with 47,000 million for manufactured goods imported from all sources and 1,500 million for manufactures from Latin America.

4/ This is a hypothetical calculation based on the assumption that growth rates similar to those for the fifties will be maintained (these were 5 per cent for Europe, 3 per cent for North America and a downward adjusted figure of 8 per cent for Japan), with varying income elasticities of demand according to the type of product, and a slightly increased share of imports in the supply of manufactured products, a reasonable assumption in view of the recent pattern of production and trade in the large industrial countries.

2. Latin America's ability to export manufactures

Access to markets - with everything that this implies in terms of abolition of restrictions and of the facilities and preferences that the large industrial countries would have to offer with respect to manufactures from the developing countries, giving a new meaning to the principle of reciprocity - though essential is, of course, only one aspect of the problem. The other is how far the Latin American economies are capable of taking advantage of any such concessions that the industrial countries may grant.

The existing deficiencies of Latin American industry - generally high production costs, transport problems, lack of credit, distribution and marketing difficulties, etc. - are all factors that may throw some doubt on this capacity. Consequently the question needs to be probed more deeply to determine how far these problems are temporary difficulties that can be overcome by applying the correct policy, and what long-term factors exist that might justify persistent efforts to develop a regular flow of exports of manufactures.

It must first be borne in mind that significant progress has already been made as regards certain export flows that are at a competitive advantage on the world market. A general reference to this aspect, by no means exhaustive, will give an idea of the variety of products exported, while indicating that at present the figures involved are low. 5/ Food products include tinned meat (80 million dollars), tinned fish (9 million), butter (6 million), tinned fruit (6.2 million), coffee extracts (7.2 million), tinned vegetables (4.8 million), cheese (1.2 million), fruit juices (2.4 million), oils and fats (126.2 million) and fish meal (51.3 million). Exports of petroleum to overseas markets amounted to about 560 million dollars. The export value of chemical products (such as medicines, essential oils, explosives, insecticides, various acids, glycerine, gluten, perfumes, paints and oxides) was 76 million dollars. There were also exports in the leather and leather manufactures sector, although they amounted to only slightly over 7 million dollars. Paper, pulp and wood were also exported, but the figures were low. Exports of rubber products were very small, amounting to less than half a million dollars. Lastly, exports of metals, machinery and transport equipment amounted to about 15 million dollars.

In the above-mentioned cases, and in many others, although the total volume is very small, the exports concerned are of products for which Latin America is at a competitive advantage. 6/ Consequently analysis of the

5/ These are the values of exports to the world market in 1961, excluding trade between the Latin American countries.

6/ Comparison of the price in the United States and in some Latin American countries, where this was possible, indicated that the latter price was lower. This is true for refined sunflower and cottonseed oil, tinned tomatoes, fresh cheese, crystallized insulin, tinned beef tongue, tinned beef, cotton grey goods, leather footwear, wood pulp, tinned tuna fish and linseed oil.

technical and economic aspects of these production lines, with a view to discovering the factors that determine the competitive advantages, will provide some grounds for assessing future prospects of expanding and diversifying these exports. This will make it possible by analogy to deduce the range of manufactured products that will offer prospects similar to those provided by the products now being exported. Although the analysis required is of a complex type beyond the scope of the present study, and provides little ground for generalizations, some observations in this connexion are called for here, on the basis of a comparison between the figures for manufactured products exported thus far by certain Latin American countries and the figures for corresponding products produced by the United States, with special emphasis on the main components of the final price. The results of this comparison are given in table 66, which shows that in all cases the component for wages and salaries in the price of industrial products now being exported by Latin America is lower than in the United States, despite the higher labour intensity of industrial production in Latin America and its lower levels of productivity. This is due to the higher wages paid in an industrial country, which more than offset the above two factors, and thus the wage component of the final price is higher than in Latin America.

The variations in the values for this price component in the different countries is due to the different type of goods exported and the consequent difference in the labour intensity of production. In Argentina, where exports of manufactured products are based on agricultural inputs, the wage and salary component is the lowest, but not much lower than in the United States. In this case the activities concerned involve the use of similar technologies in both countries, based on a high degree of mechanization. The same is true with respect to Peru, although here the governing factor is the predominance of manufactured exports based on fish - mainly fish meal - petroleum products and basic items of non-ferrous metals, whose production is generally highly mechanized and based on wages lower than those paid in the United States. In Chile, Colombia and Mexico, on the other hand, the wage component is much lower than in the United States. The activities involved all have a high labour density and very low wages.

The raw materials component is generally lower in Latin America than in the industrial countries, or at least than in the United States. Two factors account for this: the first is that many of the manufactured goods exported are produced on the basis of inputs of domestic origin, as a direct or indirect consequence of the abundance of rich natural resources which place Latin America at a distinct advantage because they can be exploited at low cost. Secondly, the inputs concerned also include a labour component, which ranges from 20 to 28 per cent of the final value of the export product. Thus the total direct and indirect wage component in the final price is over 40 per cent, compared with over 55 per cent for similar products in the United States. This means that the labour cost component in the final price, including the wages and salaries involved in all the inputs, is substantially lower for the Latin American countries, despite the higher labour productivity (output per worker) achieved in the industrial countries. Detailed figures for individual countries and products are given in table 67.

Table 66

FINAL PRICE COMPONENTS OF MANUFACTURED PRODUCTS NOW EXPORTED BY SELECTED
LATIN AMERICAN COUNTRIES

(Percentage)

Country	Wages and salaries	Raw mate- rials	Energy	Other	Total
Argentina	12.4	64.9	2.2	20.5	100
United States	13.8	77.5	0.7	8.0	100
Chile	14.3	49.1	4.7	31.9	100
United States	22.8	52.3	4.3	20.6	100
Colombia	9.4	62.7	1.7	29.6	100
United States	16.8	64.9	1.9	16.4	100
Mexico	16.9	47.1	2.6	33.4	100
United States	20.3	59.5	2.3	17.9	100
Peru	14.0	45.6	5.0	35.4	100
United States	14.5	71.4	1.5	12.6	100

Source: Industrial censuses, foreign trade yearbooks and specialized publications.

/ Table 67

Table 67

PROPORTION REPRESENTED BY WAGE COMPONENT IN THE FINAL PRICE OF ITEMS
EXPORTED BY SELECTED LATIN AMERICAN COUNTRIES
(Percentage)

Product	Argentina	Chile	Mexico	Peru	Colombia	United States
Edible oils	12.3	-	-	-	-	4.5
Canned and processed meat	10.1	-	-	-	-	13.2
Canned fruit and vegetables	11.8	10.7	16.7	-	-	15.9
Milk products	6.7	-	-	-	-	7.3
Vegetable oils	6.8	-	7.0	9.9	-	13.7
Pharmaceutical products	19.0	13.3	-	-	13.1	21.9
Chemical products and drugs	13.8	13.0	11.4	15.0	8.9	16.6
Canned fish	-	18.8	16.9	10.6	-	19.5
Paper and pulp	-	9.4	11.3	-	-	17.1
Iron and steel products	-	12.3	11.4	-	-	22.3
Non-ferrous metal products	-	12.9	25.6	-	-	26.3
Metal products, worked	-	21.6	-	-	-	30.2
Non-electrical machinery	-	23.3	18.5	-	-	27.5
Electrical machinery	-	18.9	-	-	-	24.5
Paints and varnishes	-	-	10.9	-	-	17.7
Leather manufactures	-	-	20.6	24.3	16.7	30.1
Felt products	-	-	18.9	-	16.4	28.1
Cotton yarn and fabrics	-	-	24.5	20.8	16.7	28.1
Henequen and jute yarn and fabrics	-	-	10.2	-	-	23.4
Glass	-	-	19.3	-	-	35.8
Petroleum products	-	-	4.3	4.4	5.0	6.9
Footwear	-	-	24.6	29.5	-	32.9
Iron and steel castings	-	-	11.4	-	-	41.4
Non-ferrous metal castings	-	-	25.6	-	-	37.5
Miscellaneous metal products	-	-	18.1	-	-	29.8
Fish meal	-	-	-	6.4	-	-
Products of the basic non-ferrous metal industries	-	-	-	2.2	-	8.5

Source: As for table 66.

Table 68 shows that the cost component for raw materials is lower in Latin America, with few exceptions: these are pharmaceutical products in Argentina, Chile and Colombia, non-electrical machinery, paints and varnishes, and cast iron in Mexico, and leather manufactures in Colombia and Peru.

The price-structure analysis shows that the energy used (electricity and fuels) is always higher in the Latin American countries considered here, despite the lower general level of mechanization (see table 66 above). There may well be a number of different reasons for this: the effect of the high capital density needed for the production and supply of energy, which leads to a higher price level in Latin America, and the different policies as regards organization, production and distribution followed in the countries studied. Be that as it may, the greatest differences in comparison with the United States are found in Argentina and Peru, and the smallest in Chile and Mexico.

The situation in Latin America as regards the other price components - mainly capital charges and interest - is the reverse of that with respect to wages and raw material inputs, since in all cases the remaining components are much higher than in the United States. The reasons for this are different: high capital costs, as regards prices, interest rates and depreciation charges, and large profit margins, either because of monopoly of the traditional type, or because of the high protection of domestic markets.

However that may be, the high proportion of these other cost components does not offset the advantage, as regards the price of the manufactured goods at present exported by Latin America, provided by the low wage levels and the existence of natural resources exploited at low cost. ^{7/} As the advantage of lower wages may be cancelled out by even greater differences in productivity levels, it is appropriate to consider these levels, in terms of value added per worker.

In table 69 the first column gives the average remunerations paid in Argentina, Chile, Colombia, Mexico and Peru for the group of industrial activities that provide exports, side by side with the corresponding figure for the United States. There is an extraordinary difference between the Latin American countries listed and the United States. The difference is undoubtedly largely a reflection of the difference that also exists in productivity levels, which means that in the United States the labour force can absorb a larger proportion of the functional distribution of income without distorting the cost of production and the final price.

The second column of the table shows conclusively the enormous difference between the product per worker in the export industries in

^{7/} Moreover, it is quite possible that entrepreneurs would be willing to take smaller profits in order to compete on a broader scale in the external market.

Table 68
 PROPORTION REPRESENTED BY RAW MATERIALS COMPONENT IN THE FINAL PRICE OF ITEMS
 EXPORTED BY SELECTED LATIN AMERICAN COUNTRIES

(Percentage)

Product	Argentina	Chile	Mexico	Peru	Colombia	United States
Edible oils	60.2	-	-	-	-	81.2
Canned and processed meat	63.3	-	-	-	-	76.7
Canned fruit and vegetables	57.1	61.5	32.4	-	-	62.8
Milk products	71.8	-	-	-	-	80.2
Vegetable oils	64.9	-	62.6	42.5	-	86.4
Pharmaceutical products	31.0	44.9	-	-	37.9	29.3
Chemical products and drugs	46.4	47.1	39.6	43.3	45.5	50.7
Canned fish	-	49.4	22.1	54.8	-	70.5
Paper and pulp	-	60.4	48.4	-	-	62.3
Iron and steel products	-	50.8	43.2	-	-	61.1
Non-ferrous metal products	-	47.0	47.3	-	-	68.2
Metal products, worked	-	45.8	-	-	-	60.5
Non-electrical machinery	-	39.8	44.0	-	-	40.7
Electrical machinery	-	34.9	-	-	-	41.2
Paints and varnishes	-	-	64.0	-	-	57.0
Leather manufactures	-	-	49.9	58.1	53.0	52.6
Felt products	-	-	64.4	-	54.9	65.0
Cotton yarn and fabrics	-	-	44.2	44.5	43.8	59.6
Henequen and jute yarn and fabrics	-	-	59.2	-	-	68.4
Glass	-	-	26.8	-	-	31.9
Petroleum products	-	-	54.6	78.1	72.1	83.8
Footwear	-	-	48.4	59.7	-	64.6
Iron and steel castings	-	-	45.6	-	-	37.3
Non-ferrous metal castings	-	-	42.8	-	-	45.6
Miscellaneous metal products	-	-	46.7	-	-	47.2
Fish meal	-	-	-	49.3	-	-
Products of the basic non-ferrous metal industries	-	-	-	39.3	-	41.4

Source: As for table 66.

/Table 69

Table 69

AVERAGE ANNUAL WAGE AND VALUE ADDED, PER WORKER, FOR THE GROUP OF MANUFACTURED PRODUCTS FOR EXPORT, FOR SELECTED LATIN AMERICAN COUNTRIES

(Dollars)

Country	Annual wages and salary per worker a/	Value added per worker a/	Ratio of wages and salary to value added b/
Argentina	935	2 486	2.70
United States	3 786	7 083	1.87
Chile	671	2 474	3.69
United States	4 335	9 025	2.10
Colombia	712	2 671	3.75
United States	3 469	7 024	2.03
Mexico	461	997	2.17
United States	4 140	8 190	1.96
Peru	635	2 237	3.53
United States	3 700	7 305	1.97

Sources: As for table 66.

a/ Argentina 1954, Chile 1957, Colombia 1961, Mexico 1956, Peru 1959, United States 1954.

b/ Value added per worker divided by one wages-and-salary unit.

Latin America and the level in the United States. However, these differences are much more marked in terms of average salary than of product per worker, and consequently it is not surprising that the third column shows that in the United States one wage unit produces a lower value added than in any of the Latin American countries considered. Thus although labour productivity is lower in Latin America, this shortcoming is offset by the low average salary. This is, of course, a very general conclusion, since there are some enterprises and activities in Latin America in which the average productivity is close to the standards found in the developed countries.

In brief, to judge by the technical and economic features of the production function of these manufactures, there is no doubt that Latin America, given certain conditions, could compete abroad, generally speaking, in selling all those products that require intensive use of labour and for which inputs of raw materials and intermediate goods are high and can be obtained directly or indirectly from Latin America's rich natural resources.

It may well be that natural resources alone will not result in any marked advantage if they cannot be developed at low cost. Resources like those of Latin America, and similar in quality, are to be found in various parts of the globe. However, because of the scarcity and high cost of a particular factor needed for their exploitation, or because of distance from the centres of production and consumption, transport problems, etc., exploitation may be more economic in some areas than in others.

The analysis of Latin America's industrial exports shows that in many cases low-cost exploitation of a natural resource is due not only to the high quality of the resource, but also to the labour density needed for exploitation (agriculture or fishing, for example). To simplify the problem, it can be stated that the prime advantage may derive from the direct and indirect labour content of many of the products now being exported.

This conclusion fits in with Latin America's need to solve its two main problems, the balance of payments, and the level and structure of employment. As to the first, one can point to the larger net balance of foreign currency brought in by this type of export, mainly as a result of the low import content. As to the second, the high labour content of such exports will lead to an additional demand for industrial manpower, which will undoubtedly encourage a different structure of employment and establish better wage levels.

But although this is the result of analysing the products actually exported, it can be seen that such products also include a number of items of a complex type calling for not only a substantial proportion of the capital factor, but also an advanced type of production technique. We therefore need to find out what circumstances have enabled this type of manufacture (for example machinery, motors, metal products, more or less

/complex organic

complex organic and inorganic chemicals, wood pulp, etc.) to compete on the world market.

Firstly, it should be stressed that the expressions "high capital-density product" and "high labour-density product" are relative, since any single item can generally, within certain technical limits, be produced by different combinations of factors. Thus certain products generally defined as high capital-density products (lathes of a certain level of complexity, pumps and motors) are produced in Latin America on a much less capital intensive basis than in Europe or the United States, but at less cost.

Secondly, the size of the market covered by one or two enterprises has in some cases led to the installation of production units sufficiently large to permit economies of scale, with the consequent benefit not only to the average cost but also to the capital density per unit of product and per worker; this is so, for example, for certain chemicals, steel tubes, etc. (see illustrative examples in table 70 below).

Lastly, the high capital-density lines that make use of the Latin American advantages of low-cost domestic inputs and existing national resources were originally established on a competitive basis. Generally the activities concerned are carried out by foreign companies that supply the capital and technical know-how from abroad and compete on the world market in accordance with their own international trade policy.

These and other favourable circumstances will enable Latin America to compete in the future, too, in certain sectors defined as having a high capital density, despite the handicap of the high price of capital (high profits, interest and depreciation charges) and all the surcharges on import costs to which, because of balance-of-payments problems, imports of capital goods are often subject.

From what has been said above it can be inferred what are the main industrial sectors for which future export prospects are promising. These may provisionally be summarized as (1) wood products, (2) leather and footwear, (3) cotton, wool and hard-fibre textiles, (4) processed, prepared, tinned and similar foods, (5) machinery produced in short series, (6) metal products, (7) pulp and paper, (8) petrochemicals, and (9) miscellaneous chemicals based on abundant natural resources such as those used in organotherapy, etc.

If such exports can be achieved and can attain significant levels in Latin America's foreign trade, not only must the international problems facing industry be solved first, but also some kind of preferential treatment in the potential importing markets must be obtained. In many cases the industries involved are at an embryo stage, and consequently need specific conditions if they are to develop efficiently from an economic standpoint, since otherwise they will be at a competitive disadvantage compared with older-established industries that have already

Table 70

ECONOMIES OF SCALE IN SELECTED INDUSTRIES: FLUCTUATION OF UNIT INVESTMENT AND AVERAGE COST

	Indices											
	(1)			(2)			(3)					
	Steel			Pulp and paper			Chemicals					
	Welded steel tubes, 1/4" to 2" diameter			Kraft paper (integrated plant)			Sulphuric acid		Butadiene			
	100	178	447	100	200	400	100	276	830	100	200	400
Size of plant ^{a/}	100	178	447	100	200	400	100	276	830	100	200	400
Investment per unit of output	100	72	44	100	59	46	100	83	66	100	75	56
Average total cost	100	86	68	100	71	57	100	84	71	100	79	65

Sources:

(1) ST/ECLA/CONF. 11/L.14.

(2) and (3) ST/ECLA/CONF. 11/L.19.

^{a/} Operation at full capacity is assumed.

/attained a

attained a sufficient economic scale and broad experience in the world market. Furthermore the list of products given above, and the order in which they appear, which were obtained through a theoretical and preliminary study of the prospects in the various sectors, may well change considerably in practice, depending upon internal and external developments.

The broad range of products that could be exported by the Latin American countries as a whole includes not only those produced on the basis of a particular factor that is cheap and abundant, but also complex articles involving a high level of technology and intensive use of capital. Consequently from the standpoint of the economicity of production it is not advisable to concentrate interest on this or that type of product. On the contrary, future prospects should be considered in terms of the above wide range of items or a similar range.

3. Some shortcomings and obstacles

Since the basic conditions exist which make it possible for Latin America to compete advantageously in international trade in certain types of manufactures, turning them to account will depend in large measure on the comprehension met with in the industrialized centres in the way of removing obstacles and deciding what preferences may be necessary within the new structures international trade is tending to assume. The materializing of such possibilities is determined also by the efforts undertaken to surmount shortcomings and obstacles of a different nature, some inherent in Latin America itself, and others related to the broader machinery of international co-operation.

Without wishing to go into a systematic analysis, some illustrative examples should be given. First, there are the problems deriving from shortage of capital. To the high cost and inefficient channelling of capital must be added problems stemming from the technology applied in the dynamic capital intensive industries and the existence of considerable idle capacity in many plants, mainly the largest and most capital-intensive installations.

With respect to labour, an active process of improving techniques and training facilities is called for to breach the huge gap in output existing between this region and the industrialized countries. Otherwise, the wage increase resulting from any attempt to redistribute income and from the very expansion of labour demand would offset the comparative advantages of Latin America's present output-wage ratio.

An adverse aspect of existing conditions for industrial development is the generally unsatisfactory situation as regards the production and supply of energy. This affects not only specific industries - such as those based on electrolysis -, but industry as a whole, sometimes by virtue of the high rates charged, at others because of its short and irregular supply.

/More important

More important perhaps, than the problems mentioned so far is the lack of competition between manufacturing industries in Latin America, deriving partly from the size of the market, often too small for there to be more than one or two enterprises, and partly from tariff or quantitative protection which is often tantamount to prohibition on imports. These two factors have frequently been responsible for industries being set up which are inadequate both from the standpoint of output and product quality. Moreover, together with an almost complete absence of industrial development programming at the national level, they have led to the establishment of import substitution on a far from competitive basis, and this naturally led to the difficult balance of payments situation. From the viewpoint of the possibility and desirability of exporting manufactured goods, they have discouraged rational efforts to compete overseas. In other words, entrepreneurial decisions have naturally been directed more towards profit-making in a safe and protected domestic market than towards an uncertain overseas market in which competition must be met under the conditions already mentioned.

Export trade channels are in general at an incipient stage - except for some traditional products - and credit facilities for marketing them are practically non-existent. Thus, if the export of manufactures is to be made possible, it is of fundamental importance to organize, shape and develop those channels together with the necessary export credit and international financial relations associated with that credit.

Lastly, to mention one more of the many other basic conditions, market research ought to be greatly intensified from the standpoint of technology and trade, in order to bring the quality and technical standards into line with the requirements of possible markets for exports of Latin American manufactured goods.

/C. POSSIBILITIES

C. POSSIBILITIES FOR THE EXPANSION OF EXPORT MARKETS

The third factor susceptible of contributing to overcoming Latin America's foreign trade problems - besides those already mentioned, i.e., expansion of traditional trade and diversification of exports by means of new export flows of manufactured goods - is market expansion.

Previous sections have shown clearly the high proportion of Latin America's foreign trade with the western industrialized countries and the low level of trade registered within the region itself and with the centrally planned economies and other developing areas. It is not difficult, however, to assume that the three last mentioned cases present undoubted potentialities for more active trade which, if turned to good account, could contribute substantially - in the short and long run - to the more rapid growth of Latin American exports, while at the same time facilitating their wider diversification.

It would be as well, therefore, to examine those prospects at greater length and to attempt an evaluation, however general, of their magnitude and importance.

1. Latin America - regional integration and foreign trade

Increased intra-regional trade appears to be one of the most obvious channels for expanding Latin America's foreign trade, above all if account is taken of its present low level: barely 7 per cent of the region's total exports in 1961.

Past conditions have not been too favourable for inter-Latin American trade, because of the limited industrial development of its economies, whose basic resources are in general competitive rather than supplementary and whose industrialization process was directed mainly towards import substitution in each individual country. The process itself later set the limits of that policy, in particular once the simpler substitutions from the standpoint of technological requirements, capital density and economies of scale had been exhausted. The growing difficulties in the way of carrying substitution beyond the first stage that contemplates only the domestic markets, combined with the adverse foreign trade trends, served to emphasize the need to contrive regional arrangements that would facilitate the essential reorientation of the industrialization process and at the same time enable full use to be made of other advantages of specialization, including those related to primary commodities.

At the present time, not only is there a sufficiently widespread understanding of the problem, but many of the necessary policy decisions have been adopted and several of the instruments needed to stimulate the regional integration process have been established. The General Treaty on Central American Economic Integration and the Latin American Free-Trade Association are both fully operative and, although there are still many

/practical difficulties,

practical difficulties, are beginning to bear their first fruits. In addition, it has been decided to strengthen those instruments and amplify their objectives with the ultimate purpose of arriving at an effective Latin American common market.

Countries of the region therefore attach capital importance to the aim of integration as a means of creating more favourable conditions for the growth of their economies and of surmounting the traditional inadequacy of their external sector.

The relationship between those efforts to attain regional integration and Latin America's trade with other areas are also, perhaps, sufficiently clear. Were the restrictive and discriminatory conditions of international trade to persist or be accentuated, the extension of integration would have to come about through a growing regional self-sufficiency, in an endeavour to find within its own boundaries and at any cost the opportunities that its trade with the rest of the world does not provide. This is not a desirable solution. From the Latin American standpoint, regional integration does not represent an alternative to more active foreign trade; on the contrary, it should become an instrument which will contribute to the strengthening of that trade to Latin America's advantage, together with the general benefits deriving from more intensive world trade.

In fact, as progress is made in the efforts to achieve integration, so the growth rate of the regional economies will be stepped up and their needs and possibilities in respect of imports from the rest of the world will be correspondingly greater. Progress towards consolidation of a Latin American common market will, in turn, facilitate readaptation of the region's structure of production, particularly in the industrial sector, and will better equip these countries to participate in new structures of international trade. The wider dimensions of the whole regional market will act as sufficient impetus for the installation of larger plants capable of taking advantage of the economies of scale and producing at lower costs than those at present prevailing in a large part of the region's manufacturing activities. Similarly, the greater competition in local markets resulting from progressive liberalization of trade between the member countries will encourage attempts to rationalize production and to improve the quality, standardization, and so forth, of industrial products.

Nevertheless, the difficulties in the way of accomplishing all this will loom very large if Latin America is forced to withdraw into its shell and is unable to derive sufficient benefit from the undoubted advantages of trade with the industrialized countries, which are in a better position to supply much of the machinery and equipment and, in general, the more complex manufactures requiring more exacting technological standards. Thus, the aim and end result of the efforts to attain regional integration in Latin America are not a reduction of imports from outside the region but, on the contrary, a steady increase in such imports, marked by progressive changes in their composition.

/Such are

Such are the terms in which the problem is expressed. Progress towards the increasing integration of the Latin American economies is inescapable; on the other hand, its fundamental orientation will depend on the decisions taken at the world level concerning the conditions and possibilities offered in the future by the mainstreams of world trade.

2. Prospects of trade with the centrally planned economies

The countries with centrally planned economies constitute an area of great potential for increased trade by the developing countries, if account is taken of their level of industrial progress, the size of their population and, above all, of the fact that hitherto only the minimum use has been made of existing trade possibilities. However, nothing can actually be achieved unless both sides are determined to examine in a complete spirit of objectivity the difficulties that have arisen heretofore, and try to overcome them. Primarily they stem from the relative self-sufficiency, on which development of the countries with centrally planned economies has been based, a policy which has been relaxed of late. Other factors limiting trade possibilities relate more particularly to the conditions of payment applied to transactions, the criteria for establishing prices of the goods traded, and such aspects as the suitability of industrial equipment and the lack of agents or representatives.

Even though the total volume of trade engaged in by the States members of COMECON ^{8/} has increased rapidly over the past ten years, it is still at a fairly low per capita level compared with the western economies. The Soviet Union, for example, registered 61 dollars per capita of foreign trade in 1962, whereas the figures for the United States, West Germany and the United Kingdom were 200, 450 and 445 dollars, respectively. Broadly speaking, the levels for the other members of COMECON are also very much lower than those recorded by the industrialized market economy countries, with the possible exception of Czechoslovakia. ^{9/} Two other features of those countries' foreign trade still further limit its volume with respect to the developing countries: on the one hand, a very high proportion (65 per cent) is accounted for by trade between the COMECON countries themselves and, on the other, trade with the developing countries represents barely 10.8 per cent. Not even groups of countries such as those belonging to the EEC reach that degree of intra-regional concentration and the proportion of their trade with the developing countries is far higher than that of COMECON (i.e., over 40 per cent).

^{8/} The following countries are members of COMECON: Bulgaria, Czechoslovakia, Hungary; Poland, Romania, the Soviet Union and the German Democratic Republic.

^{9/} Estimates by the Economic Commission for Europe. Frederic Pryor, in The communist foreign trade system, brings to light even more unfavourable proportions for 1955. In that year, none of the COMECON countries had attained a per capita volume of foreign trade equal to even half that corresponding to their level of industrial development and population.

If the factors responsible for such a limited proportion of trade with other areas were to be eliminated, or at least mitigated, presumably Latin America could aspire to a fairly sizable volume of trade with that area. While it is impossible to make detailed projections of any kind for the time being, it might be mentioned for purposes of illustration that were the centrally planned economies to import from Latin America a proportion of their gross domestic product equal to half that imported by the Federal Republic of Germany, this would amount to over 2,250 million dollars a year.

Trade prospects are, of course, brighter for some products than for others. Tropical agricultural commodities are not produced within COMECON and their consumption is expanding rapidly. There are also good prospects of increasing trade in raw materials, such as cotton, wool and hides, which are needed in growing quantities. Temperate products offer more sporadic, but also interesting, possibilities. For instance, based on over-all projections of income and assuming a rise in the per capita consumption of coffee and cacao equal to half the level registered today in a country like the Federal Republic of Germany, coffee imports by the centrally planned economies could amount to about 1.5 million tons for a value of 1,350 million dollars by 1965, and those of cacao to 800,000 tons for a value of 690 million dollars, instead of the 28,000 tons of coffee and 32,000 tons of cacao actually imported in 1958. Whatever reduction may be made in these figures, in the light of different factors that might keep consumption of these items far below the levels attained in the United States or West Germany, there are unquestionably ample possibilities for finding an outlet for these and other commodities.

However, Latin America's annual trade with the centrally planned economies up to 1953 never exceeded 100 million dollars. In 1954 and 1955, owing mainly to the expansion of Argentina's trade with that area, exports rose to 169 million and 207 million dollars respectively, with imports of 231 million and 181 million dollars in each case. Trade fell off again in the next three years, to recover in 1960 largely as a result of the shift in Cuba's foreign trade. No information on Cuba's trade is available since 1961, but that of other Latin American countries, particularly Brazil, has again increased (see table 71).

As regards existing trade flows, it should be mentioned that while Brazil's trade with the centrally planned economy area in 1956 was approximately 39.4 million dollars for exports and 46 million for imports, these figures rose to about 76 million and 73.5 million dollars respectively in 1962. The levels attained by Argentina in some years were even higher: in 1954 its exports reached a peak of 97.7 million dollars; this figure fell off considerably in the next few years, but rose again to approximately 75 million dollars in 1962. In Uruguay, while the figures have been lower in absolute terms, they represent an even higher percentage of total exports and imports in fact, its exports reached a maximum of 26.3 million dollars in 1958.

/Table 71

Table 71

SHARE COUNTRIES WITH CENTRALLY PLANNED ECONOMIES IN TOTAL
VOLUME OF LATIN AMERICAN TRADE

(Millions of dollars)

Year	Fob Exports from Latin America					Cif imports to Latin America		
	To mainland China	To other countries with centrally planned economies	To all countries with centrally planned economies (A)	Total exports from Latin America (B)	(A) as percent age of (B)	Total imports from countries with cen- trally planned economies (C)	Total imports by Latin America (D)	(C) as percent age of (D)
1938	1	27	28	1 693	1.7	31	1 527	2.0
1948-53	2 ^{a/}	69	71	6 852	1.0	52	6 524	0.8
1954	10	159	169	7 867	2.1	231	7 396	3.1
1955	6	207	207	7 991	2.6	181	7 533	2.4
1956-58	6	127	133	8 439	1.6	99	8 587	1.2
1959	3	157	160	8 285	1.9	125	7 992	1.6
1960	41	269	310	8 656	3.6	158	8 239	1.9
1961	80	140 ^{b/}	220 ^{b/}	8 660	...	131 ^{b/}	8 033 ^{b/}	...

Source: United Nations, Direction of International Trade, and national statistics.

^{a/} Average for the years 1948, 1952 and 1953.

^{b/} Excluding Cuba.

/The rest

The rest of the Latin American countries, with the exception of Cuba, engage in relatively little trade with the centrally planned economy countries (for further details see tables 72 and 73).

A very high proportion of Latin American trade with the centrally planned economies is constituted by a limited number of agricultural commodities. Exports from the temperate zone - Argentina and Uruguay - consist of hides, wool, cereals and meat; and from the tropical zone - chiefly Brazil -, coffee, cacao, cotton, waxes of vegetable origin and sisal. Imports, in turn, have consisted mainly of machinery and equipment, chemicals and, in the case of Brazil, petroleum and wheat.

Since this trade is of a non-traditional character and, moreover, presents very special patterns, it is useful to record some of the recent experience derived therefrom. ^{10/} In the case of Argentina, trade with the centrally planned economies was heaviest at a time when it was to some extent facilitated by two factors: 1. at the time bilateral trade and payments agreements were the general rule in Argentina's trade policy; 2. there was an official agency (IAPI) in existence which conducted most of the country's foreign trade operations. The first factor coincided with the practices of government agencies in countries with centrally planned economies, which carry out their foreign trade operations primarily through bilateral agreements. The second factor facilitated purchases and sales, since it eliminated the dual procedures that would have been necessary between private exporters or importers and government agencies. This boom in trade between Argentina and the centrally planned economy countries should, however, be treated with the utmost reserve in so far as bilateral agreements are concerned. For various reasons, chiefly the difficulty of finding suitable articles to import from those countries, Argentina's credit balances rose to soaring proportions through the swing credits provided for in the agreements. In 1956 such credits represented several tens of millions of dollars which, in practice, meant a reversal of financing - from a developing country in favour of industrialized countries. In view of the type of commodities offered by the Latin American countries (raw materials and food products), these features of the operation of the agreements further signified that consumer goods were being sold on a credit basis. Quite possibly the emphasis placed by Argentina since 1958 on multilateral payments mechanisms, which brought in its train the abandonment of bilateral accounts and the disappearance of IAPI, was partly responsible, at least temporarily, for the reduction in its trade figures with the centrally planned economies. On the other hand, transactions with mainland China are based on direct payment in dollars.

^{10/} To that end, data and impressions were collected from the countries mentioned by means of surveys covering government officials and persons associated with private trade who have taken part in negotiations with certain centrally planned economy countries. Naturally, the references contained in the text represent only a very general appraisal of the results of that survey, the persons interviewed being absolved from all responsibility.

Table 72

LATIN AMERICAN EXPORTS TO EASTERN EUROPE, BY COUNTRY OF ORIGIN

(Fob values in millions of dollars)

Exporting country	1948	1949	1950	1951	1952	1953	1954	1955	1956	1957	1958	1959	1960	1961
Argentina	49.9	31.9	38.0	35.7	12.6	22.8	97.7	81.6	41.2	29.0	29.4	51.3	59.1	52.0
Brazil	20.3	17.9	21.6	24.7	4.5	4.2	21.5	42.1	39.4	38.8	37.1	58.2	69.6	72.9
Chile	7.3	2.4	1.0	0.5	1.8	0.1	2.0	0.3	-	-	0.4	-	-	0.4
Colombia	-	3.8	-	-	0.7	-	-	1.2	0.9	-	1.8	1.4	2.2	2.0
Ecuador	-	-	-	-	0.1	0.1	-	0.1	0.2	1.5	0.2	-	-	-
Peru	1.3	0.2	-	-	0.1	-	-	-	-	-	0.5	-	-	-
Uruguay	2.6	2.9	2.4	2.0	1.5	1.4	22.6	10.5	6.0	6.2	26.3	21.4	8.8	...
Cuba	0.1	1.5	0.5	3.1	0.1	0.9	0.8	37.0	15.6	42.0	14.1	13.1	114.5	...
Mexico	11.9	5.7	1.0	0.7	0.5	0.3	0.1	0.4	0.1	0.3	0.3	-	0.9	-
<u>Total Latin America</u>	<u>90.4</u>	<u>66.3</u>	<u>64.5</u>	<u>66.7</u>	<u>21.9</u>	<u>29.8</u>	<u>144.7</u>	<u>173.5^{a/}</u>	<u>104.5^{b/}</u>	<u>117.9^{c/}</u>	<u>119.2^{d/}</u>	<u>145.4</u>	<u>255.1</u>	<u>127.3</u>

a/ Including Haiti (0.1).

b/ Including Venezuela (1.0), and Haiti (0.1).

c/ Including Venezuela (0.1).

d/ Including Honduras (0.1).

Table 73

Table 73

LATIN AMERICA: IMPORTS FROM EASTERN EUROPE BY COUNTRY OF DESTINATION

(Cif. values in millions of dollars)

Importing country	1948	1949	1950	1951	1952	1953	1954	1955	1956	1957	1958	1959	1960	1961
Argentina	18.7	18.8	36.2	31.6	7.5	21.3	152.7	110.2	58.1	15.4	55.9	48.1	47.7	47.5
Bolivia	0.1	0.1	-	0.1	0.1	0.1	0.2	0.1	-	0.2	0.1	0.1	0.6	...
Brazil	11.9	16.0	9.1	10.2	18.9	18.3	51.2	38.2	46.0	38.2	29.2	50.3	77.5	69.4
Chile	0.4	0.2	0.2	0.1	0.6	0.5	0.6	1.3	2.3	0.7	0.6	0.4	1.0	1.0
Colombia	0.4	0.2	0.6	-	0.6	1.8	1.4	1.2	1.4	1.9	1.0	1.3	2.0	3.0
Ecuador	0.2	0.2	0.0	0.4	0.4	0.2	-	-	-	0.5	0.1	-	-	-
Paraguay	-	0.4	...	...	0.1	0.3	0.4	-	2.2	0.1	-	-	-	-
Peru	0.6	0.7	1.1	1.6	1.7	1.1	1.2	0.2	0.6	1.4	0.9	-	-	-
Uruguay	1.4	1.6	2.0	1.2	1.4	0.4	1.3	2.5	7.9	2.9	4.0	12.7	17.0	...
Venezuela	2.5	2.7	2.1	1.6	1.3	1.0	1.0	-	2.0	2.6	2.8	4.0	2.5	3.1
<u>Sub-total</u>	<u>36.2</u>	<u>40.7</u>	<u>51.3</u>	<u>46.8</u>	<u>32.6</u>	<u>45.0</u>	<u>210.0</u>	<u>153.7</u>	<u>120.5</u>	<u>62.7</u>	<u>56.5</u>	<u>116.9</u>	<u>148.3</u>	<u>124.0</u>
Costa Rica	0.1	-	-	0.1	0.1	0.1	0.2	0.2	0.2	0.2	0.5	-	-	-
Cuba	0.7	0.3	0.9	1.8	1.1	0.8	0.9	1.4	2.9	2.6	3.2	1.8	-	...
Dominican Republic	-	-	0.1	0.4	0.4	0.3	0.4	0.6	0.3	0.3	0.7	0.4	0.6	0.6
El Salvador	0.1	0.1	0.1	0.2	0.1	0.1	0.2	0.2	0.3	0.5	0.3	-	-	-
Guatemala	0.5	0.5	0.5	0.8	0.4	0.5	0.8	0.1	-	-	-	-	-	-
Haiti	-	0.1	0.1	0.2	0.4	0.3	0.6	1.2	2.1	1.6	...	-	-	-
Honduras	-	-	-	-	0.1	0.1	0.2	0.5	0.5	0.7	0.5	-	0.1	0.4
Mexico	1.0	0.6	0.8	1.8	1.3	0.9	0.9	0.9	2.1	2.3	0.2	0.5	0.5	0.3
Nicaragua	-	-	-	-	-	-	0.1	0.1	0.2	0.2	0.2	-	-	-
Panama	0.1	-	-	-	-	-	-	-	-	0.1	0.2	-	-	-
<u>Sub-total</u>	<u>2.5</u>	<u>1.6</u>	<u>2.5</u>	<u>5.3</u>	<u>3.9</u>	<u>3.1</u>	<u>4.3</u>	<u>5.2</u>	<u>8.6</u>	<u>8.3</u>	<u>5.8</u>	<u>2.7</u>	<u>1.2</u>	<u>1.3</u>
<u>Total Latin America</u>	<u>38.7</u>	<u>42.3</u>	<u>53.8</u>	<u>52.1</u>	<u>36.5</u>	<u>48.1</u>	<u>214.3</u>	<u>158.9</u>	<u>129.1</u>	<u>71.0</u>	<u>62.3</u>	<u>119.6</u>	<u>149.5</u>	<u>125.3</u>

/Brazil, another

Brazil, another of the Latin American countries which has traded extensively with the centrally planned economies, has also operated on the basis of bilateral agreements. Of late, the scope of these agreements has broadened and trade has increased steadily. The conviction is prevalent in Brazil, at least in government circles, that such bilateral payments agreements presuppose a net addition to the country's importing capacity and that the difficulties inherent in their operation can be overcome (see table 74 containing figures for Brazil's trade with each of the centrally planned economies from 1956-62). Brazil does not seem to have shown the same tendency to accumulate credit balances as Argentina.

Uruguay, which has traditionally maintained active trade relations with the centrally-planned economies in Europe, has signed a number of payments agreements since the end of the world war in 1945. These are compensatory agreements of the usual kind, with clearing accounts in the banks of the two parties concerned. They have on occasion acted as direct barter mechanisms, owing to the existence of export and import schedules and to the implicit commitment they contain to conduct operations for balanced amounts.

The type of agreement adopted by Uruguay is much the same as that used by Argentina and Brazil. The unit of account is the United States dollar. Swing or maximum, credits are fixed, over and above which payment has to be made in dollars. As a general rule the agreements include schedules of goods in which trade is assumed to be permitted, and a figure is established for the aggregate volume of such trade. Balances outstanding at the end of the customary period of time, or at the expiry of the agreement, should also be settled in dollars. As in Argentina and Brazil, and in all the other Latin American countries that have a market economy and trade with the centrally planned economies, many operations are effected in free dollars outside the purview of the agreements.

In general, the view is held in a number of quarters in the three countries concerned that such trade is important to the national economy. Despite occasional difficulties in using up the balances, it is considered to have made a net addition to the capacity to import, to have opened a new outlet for exports, and, on the whole, not to have caused any particular problems as regards the price of the transactions. There are, however, a few difficulties, which will have to be overcome if the trading activities in question are to acquire the importance that ought to be attached to them.

The main difficulties, which partly explain why the level of such trade has been so low up to now, are set forth below:

(a) In the first place, the economic policy of the centrally planned economies has tended to relegate international trade to the background in development plans. Their policy is implicitly geared towards self-sufficiency, in that they prefer to produce all they need within their own borders, and this is naturally an obstacle to international trade. The nature of their system of planning, which decides exactly what is to

Table 74

BRAZIL: TRADE WITH THE CENTRALLY PLANNED ECONOMIES

(Value in millions of dollars; exports fob; imports cif)

Country	1956		1957		1958		1959		1960		1961		1962	
	Exports	Imports	Exports	Imports	Exports	Imports	Exports	Imports	Exports	Imports	Exports	Imports	Exports	Imports
Bulgaria	0.02	-	0.03	-	8	-	11	-	1	-	0.4	-	2 253	35
Czechoslovakia	20 346	22 705	17 452	18 174	14 220	12 273	21 510	20 651	14 803	17 662	21 395	17 720	10 798	14 772
Eastern Germany	-	-	-	1 176	1 108	504	4 063	1 141	12 428	9 733	12 475	16 125	8 591	8 576
Hungary	8 415	8 839	5 334	4 138	3 544	2 694	8 061	7 925	4 115	4 295	4 305	1 708	3 043	1 119
Poland	10 072	14 588	16 447	14 684	19 023	13 483	17 740	18 220	24 911	28 117	15 485	14 743	6 182	5 940
Romania	15	-	11	-	322	-	154	2	1 255	2 072	1 951	785	3 296	2 617
Soviet Union	-	-	227	-	-	-	3 714	1 268	13 347	17 561	19 229	19 152	39 007	28 001
<u>Total COMECON</u>	<u>38 848</u>	<u>46 132</u>	<u>39 471</u>	<u>38 172</u>	<u>38 225</u>	<u>28 954</u>	<u>55 253</u>	<u>49 207</u>	<u>70 860</u>	<u>79 440</u>	<u>74 840</u>	<u>70 233</u>	<u>73 170</u>	<u>61 058</u>
<u>Other centrally planned economies</u>														
Albania	0.06	-	0.04	-	102	-	93	-	108	-	0.0	-	-	-
Yugoslavia	15 507	19 982	4 095	1 948	2 736	272	3 158	1 118	8 069	3 993	4 848	4 438	2 449	12 479
<u>All centrally planned economies</u>	<u>54 355</u>	<u>66 114</u>	<u>43 566</u>	<u>40 120</u>	<u>41 063</u>	<u>29 226</u>	<u>58 504</u>	<u>50 325</u>	<u>79 037</u>	<u>83 433</u>	<u>79 689</u>	<u>74 671</u>	<u>75 619</u>	<u>73 537</u>
All centrally planned economies, as a percentage of the total for Brazil	3.7	5.4	3.1	2.7	3.3	2.2	4.6	3.7	6.2	5.7	5.7	5.1	6.2	4.9

be produced, what is to be exported and what to be imported, is such as to give full rein to these autarchic trends. Although, in actual fact, they have become less marked in recent years, they still seem to be the main reason why a great many of the natural possibilities for trading on an international basis remain unrealized. While it is true that more importance is being attached to the possible advantages of international trade - in the shape of incentives to official foreign trade enterprises to raise the "profits" of the operations entrusted to them - it is no less true that increasingly detailed calculations are being made of the saving in resources obtainable through international specialization. But this new concept of the role of foreign trade is largely coming to mean specialization agreements within COMECON, since the restrictions for the other areas are being maintained, although much less rigorously. This should be regarded as the keynote for future trade relations. To a great extent, trade between the developing countries and the centrally-planned economies will be in direct ratio to the stress laid upon foreign trade by the Governments of the latter countries in their plans and practical decisions.

(b) The fact that the centrally planned economies usually prefer to conduct their trade transactions on the basis of bilateral medium-term payments agreements has an important bearing in their future trade with the developing countries. The use of bilateral channels for international trade leads to administrative problems, non-convertibility of payments with the ensuing adverse effects on trade fluidity and the general danger of trade distortions and limitations.

In order to assess the place of bilateral agreements in trade with the centrally planned economies, it should be realised that the system is firmly entrenched and that its replacement by another procedure offering greater convertibility might give rise to administrative difficulties. But this does not detract from the need to find formula that would by-pass the practical problems inherent in bilateralism and leave the way open to full convertibility in future.

Strict bilateralism, with the resulting obligation to spend the balances solely in the country that is a party to the agreement, imposes restrictions that are liable to have serious implications, particularly when the creditor country has difficulty in importing goods that it really needs. Difficulties of this kind may prevent the agreement from functioning, if the debtor country refuses to allow its debit balance to exceed the limit of the swing agreed upon, or lead to the maintenance of credit balances which, as pointed out before, represent an odd form of assistance from the developing to the industrialized countries.

This problem would be greatly simplified if, as a first step towards wider convertibility, a country which had built up a credit balance in one State member of COMECON were allowed to spend that balance in the other COMECON countries, the sphere of utilization of balances thus being broadened.

/(c) As

(c) As regards the prices adopted for transactions, the differences between the price concepts and mechanisms in force in market and centrally planned economies are well known. As a rule, sales of primary commodities are settled through the payments mechanism at international prices on which exact information is normally available. But when the goods in question belong to the far wider range of manufactures that Latin America is interested in importing, for which comparable international quotations are much harder to obtain, the problem becomes more complicated.

The customary reservations expressed in this respect are based on the monopolistic nature of the State enterprises that deal with sales on behalf of the countries with centrally planned economies, and on the ignorance of exporters in the market economies of the real market conditions in which they will be disposing of their goods. Moreover, the system lends itself to the practice of dumping, which cannot be proved because of the different methods used for calculating production costs.

(d) Even more important is Latin America's difficulty in finding suitable products to import from the centrally planned economies. This is partly due to the characteristics of the machinery and equipment produced there, whose standards and technical specifications differ considerably from those of similar items manufactured by the industrialized countries in the west and are therefore hard to adapt to Latin American plants, and to the lack of spare parts, established sales representatives and publicity material, etc. It is also due to the want of flexibility and variety in the export surpluses of the centrally planned economies, since existence of surpluses depends on government decisions by which the socialist foreign trade agencies must abide. Much could be done, however, to alleviate the problem through the gradual adaptation of equipment, the establishment of branch offices with an adequate stock of spare parts, and improvements in quality and technical specifications.

Then, too, the countries that could trade more actively with the centrally planned economies often harbour misgivings with respect to the duration of present trade movements and those likely to be established in future, and the danger that they might be abruptly arrested by a one-sided decision. In the case of trade with other market economies there is also the likelihood that a government decision will drastically change the structure of demand. But in market economies the power exercised by individual preferences and the influence of prices tend to act much more forcefully in favour of traditional suppliers than in countries where the decisions are taken by a central organ. Similarly, in the former, tariff reductions do have significance whereas in the latter they are merely an aid to certain political or geographical areas.

In short, the centrally planned economies are undoubtedly an important potential market. They offer trading possibilities of which Latin America has only just begun to avail itself and that may expand considerably in future. Problems still subsist, some new and different, that have sprung from the opening of trade channels between the market and centrally planned

/economies, and

economies, and others that relate to practical methods and procedures and will not be difficult to solve. But in no case are there barriers formidable enough to prevent this trade potential from being realized to the mutual benefit of both parties.

3. Possibilities of trade with other developing areas

From a broad standpoint, Latin America's trade with Asia and Africa (excluding Japan and South Africa) is both scanty and sporadic. In 1961 its exports totalled about 160 million dollars, of which a little less than two-thirds were destined for Asia. In the same year, its imports, amounted to 260 million dollars, less than a fifth being contributed by Africa.

Both Latin America and the other two regions conduct the bulk of their trade activities with the major centres. Asia's regional trade is fairly important (20 per cent), but with South Africa excluded, Africa's is no more than 4 per cent. The volume of trade with other developing areas is also relatively insignificant, being slightly over 6 per cent in the case of Asia and a little less than 7 per cent in that of Africa (as against 2.7 per cent for Latin America).

Latin America is a fairly regular buyer of certain raw materials from Asia, such as tin and rubber (Malaya), jute (India and Pakistan), fuels (Saudi Arabia and Kuwait) and tea (India and Ceylon). Latin American tinned meat is purchased by the Philippines, cotton yarn and textiles by Indonesia, wool, vegetable oils, grains, sugar and meat by mainland China and Chilean nitrate by the United Arab Republic. Africa mainly buys fuels from Venezuela.

Except for trade between Mexico and Indonesia which is governed by bilateral trade and payments agreements, no other attempts have been made to trade on a systematic basis with Asia and Africa.

Apart from the rather lacklustre efforts made by the developing countries to trade among themselves, there are additional difficulties compounded of their remoteness, the lack of regular communications, the dearth of other ties that would be likely to stimulate trade and, above all, the lack of complementarity between the different types of basic products. 11/

The intense trading activities carried on with Japan on the one hand and with the European countries lying on the Mediterranean basin on the other, has occasionally led to the utilization of idle transport capacity and the conclusion of export and import agreements with parts of Asia and Africa.

11/ See United Nations, Problemas internacionales que plantean los productos básicos, (E/CONF.46/PC/18), 10 May 1963. :

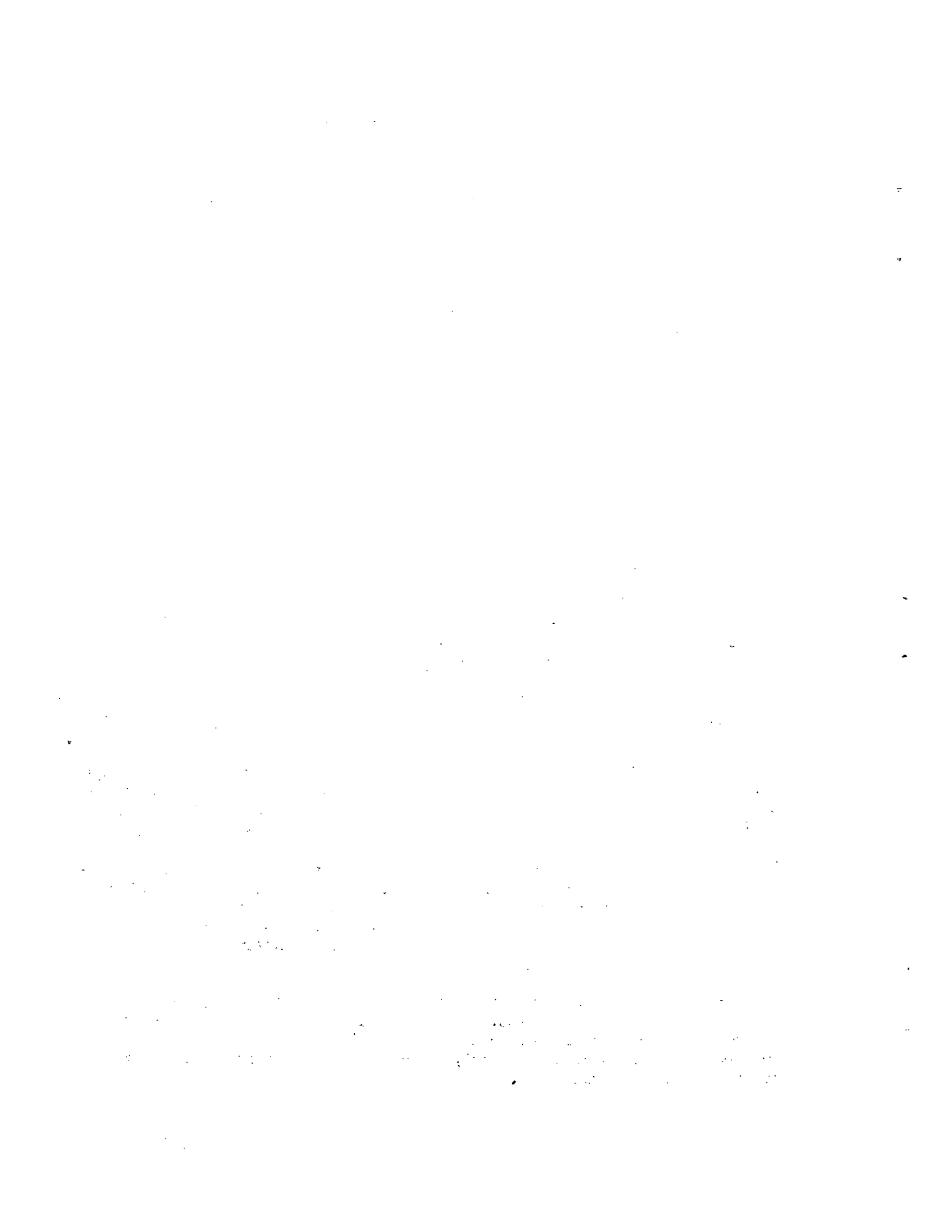
The present volume of trade does not provide any grounds for evaluating the results that might be obtained, even in the immediate future, from an intensification of existing flows. Any forecasts made would have to take into account:

1. The modifications that the recent movements towards political independence (especially in Africa) might make in the traditional economic ties between the former metropoli and their associated territories;
2. The stage of economic development capable of being reached in a short space of time by the countries in other regions, starting from their present low level; and
3. The influence of regional groups (ALALC and those envisaged in Africa) as a factor making for the systematization and co-ordination of trade at the continental level.

The first two points may be considered as outside Latin America's control. But, in order to establish bases for more balanced and harmonious international trade, it is important to ascertain the fields in which reciprocal demand could be stimulated, as some countries - Argentina, Brazil and Mexico - are already doing. In this respect, it would be advisable to follow the line of action taken by the Trade Committee of the Economic Commission for Asia and the Far East, which has organized research and intergovernmental consultations on these problems, covering State trading, the organization of trade fairs, the spread of information on markets, the improvement of the production and sale of primary commodities of importance to the region, the simplification of customs formalities and the improvement of transport media.

The initial work of promotion can only be undertaken with the support of the Governments concerned, which would also be responsible for setting up the special mechanisms required and deciding on the advisability of resorting to compensatory arrangements to ease the chronic balance-of-payments difficulties from which all the developing areas are suffering. Proper international co-ordination would also help to prevent national food production policies (which are important for developing economies because of the high rate of population growth and the need for a more nutritious and varied diet) from being worked out solely with a view to internal convenience irrespective of the cost advantages and comparative benefits to be obtained from a rational world division of labour.

Co-ordinated international action might also include projects to set up economic and efficient sales, maintenance and information facilities and to explore the possibility of establishing reciprocal preferential treatment for areas in process of development, which might eventually be transformed into a substantial trade flow.



Chapter IV *

PRINCIPAL BACKGROUND DATA IN RESPECT OF THE WORLD TRADE REORGANIZATION PROCESS

A. INTRODUCTION

This chapter will deal with an analysis of international co-operation in the field of trade. Since it covers widely dispersed and varying activities, the study will be confined to those bearing on matters that are to be discussed at the forthcoming United Nations Conference on Trade and Development.

A pre-eminent part in world trade policy is played by the General Agreement on Tariffs and Trade (GATT) whose importance for Latin America has been much discussed. Before starting to examine it, brief reference must be made to its immediate predecessor, the Havana Charter, which is based in turn on the principles of the 1941 Atlantic Charter.

The Havana Charter, with the purpose of so organizing foreign trade that it should promote the economic development of all countries and bring about a general rise in world levels of living, provided for the establishment of an International Trade Organization. This institution, like the International Bank for Reconstruction and Development, the Food and Agriculture Organization of the United Nations and the International Monetary Fund, under the aegis of the United Nations, would pursue the social objectives emerging in the post-war period.

The Havana project was based on the idea that by opening up the world market to all factors of production and ensuring the free circulation of goods - whether capital or consumer - a considerable improvement might be expected in the common well-being, provided that a system of international co-operation took care of the weaker countries' economic development. It was designed to eliminate the restrictive and discriminatory practices introduced during the world crisis which had been intensified during the war. With that end in view, the project put at end to preferential groupings such as those existing between some of the large industrial centres and their associate territories or countries, and provided for special basic commodity agreements whenever the play of market forces alone did not suffice to eliminate the imbalance existing between supply and demand.

* Note: The present version of chapter IV is only provisional and will be completed and revised before the United Nations Conference on Trade and Development. It is presented here in unedited form and in a provisional translation solely for the purpose of including in the agenda of the Brasilia meeting specific references to the most pertinent international background data with respect to the developing countries' trade, which must be taken into account in drawing up the relevant conclusions and recommendations.

The Latin American countries, which at their meeting at Chapultepec in 1945 had weighed the risks involved in the unrestricted liberalization of trade movements, strongly supported in Havana the inclusion of rules aimed at protecting and promoting economic development, inter alia, those related to preferential customs tariff agreements. The prolonged discussion is reflected in the sometimes rather vague wording of the Charter which, however, retained the principle of a world multilateral system and the creation of a powerful instrument of international collaboration, equipped with the necessary powers to promote integration of the weaker economies within a world-wide context.

In Havana, as on other occasions, attention was drawn to the difficulties in the way of the Latin American countries obtaining reasonable trade treatment, which have been greater than those experienced by other developing countries. For example, Latin America had no preferential system of its own already established, like the countries parties to the Ottawa Agreement or those belonging to the Franc Zone. Thus, while other areas succeeded in getting their preferential régimés excluded from the multilateral-type rules contained in the Havana Charter, to the evident detriment of Latin American exports, the latter region was compelled to subject all its trade to the most-favoured-nation clause. While it is true that, by virtue of specific rules, Latin America could set up its own preferential area, it is none the less so that the existing groupings still enjoyed an advantage since they included very rich industrial centres capable of offering a wide market for the production of their associate countries or territories.

It is not easy to assess the effect on Latin America, of the failure of the Havana Charter in 1951, when it was known that parliamentary ratification would not be forthcoming either from the United States or from the United Kingdom. However, this failure was obviously more detrimental to the region than to the countries belonging to preferential associations, since it destroyed all prospects of an instrument of international co-operation to solve the problems of under-development linked with foreign trade.

Furthermore, the gap created by the lack of an international trade organization within the post-war institutional framework had other adverse repercussions on the developing countries. For example, the tendency was to seek the solution to balance of payments problems at the monetary level - which in general has imposed restrictive trade and economic measures - rather than in the expansion and diversification of exports.^{1/}

Likewise, it is possible that had the International Trade Organization existed, Latin America would not have had to see preferences that were excluded from the multilateral system of the Havana Charter, and then also

^{1/} The question might also be asked whether the International Monetary Fund's action in Latin America would not have been made easier if these countries could have had recourse to an international trade organization to remove the more serious causes of the growing pressures on their balance of payments.

from GATT, become an extensive discriminatory system jeopardizing the interests of the region once the system of association between the EEC and former French territories came into being. Nor, perhaps, would they have witnessed how this same system and that of the Commonwealth are threatening to weaken the combined action of developing countries in such questions as price and stability of markets for raw materials, in which it is of the utmost importance to prevent separate preferential systems from undermining the negotiating capacity of the whole.

At the failure to ratify the Havana Charter, GATT appeared upon the scene of international trade.^{2/} Its rules are, generally speaking, the same as those contained in the Charter as far as regulating tariff negotiations and compliance with their results are concerned. Besides excluding the preferential groupings that existed in 1948 from the most-favoured-nation clause, it authorizes the establishment of customs unions and free-trade areas, provided they obey certain rules and recognize the possibility of adopting specific measures - generally by the granting of waivers from multilateral obligations - to promote economic development and protect the balance of payments situation. However, GATT lacks the positive provisions contained in the Havana Charter aimed at systematizing international co-operation in foreign trade in the interests of economic development.

GATT's task has been by no means easy. Apart from its statutory limitations and lack of positive provisions; it has been acceded to by less than half the countries in the world. Its action, moreover, has been hampered by the division in world trade between the centrally planned economy and capitalist sectors; by the absence of proper co-ordination in high-level economic activities, and by the lack of an agency empowered to work out solutions and propose them to Governments, as in EEC, so as to avoid the origin and application of such solutions depending on negotiations between contracting parties with very disparate levels of economic and political power.

GATT's valuable contribution as regards the rules it has instituted for bilateral negotiations is widely recognized. It is further admitted that those negotiations have made it possible to maintain the customs duties levied on manufactures at fairly reasonable levels, which in some degree has served to mitigate the discriminatory effects of the large-scale preferential régimes. Moreover, GATT is considered to be a good forum for discussion of trade policy questions, and the system of consultations applied in those discussions is regarded as a profitable innovation in international trade practices by that institution.

^{2/} See ECLA, Study of Inter-Latin-American Trade (E/CN.12/369/Rev.1) in which an analysis is made of GATT's significance for Latin America and note is taken of the results of a survey of the countries of the region to ascertain the reasons underlying their accession to GATT or their rejection of this Agreement.

/Nevertheless, GATT

Nevertheless, GATT has been unable to deal successfully with extremely complex events, such as the notable expansion of discriminatory practices and the relatively lessened importance of primary commodity exports by the developing countries. The most serious infringement of GATT rules occurs in respect of primary commodities. These regulations, based also on the Havana Charter, represent the concrete expression of the principle of international division of labour long advocated by the industrial powers. The under-developed countries parties to GATT which had hoped to have no difficulty in placing increasing quantities of their primary goods in industrial centres have thus seen their hopes frustrated.

The major countries do not put into practice with respect to their own production what they themselves advocated concerning the international division of labour.

Simultaneously with GATT's organization and development the major countries stimulated domestic production of basic raw materials, including many which in the past had formed the basis of the developing countries' international purchasing power. Substantial subsidies have been extended to foster agricultural production - which is often anti-economic -, to the point of creating surpluses that disrupt the picture of co-existence at the world level as envisaged in the statutes of GATT. The extensive derogations or exemptions of unlimited duration provided for by this agency (such as that granted to the United States for agricultural commodities), as also the statements by representatives of the leading nations, preclude any illusions that GATT rules can protect the developing countries' exports, even if backed by productive efficiency and specialization.

In so far as discriminatory practices are concerned, GATT's rules have proved ineffective. The EEC liberalization programme constitutes a vast infringement of the rules concerning the multilateral system, which are of fundamental importance in GATT. At the time of its establishment it might have been argued that such discriminatory liberalization did not conspire against Latin America's interests, inasmuch as the elimination of barriers applied to manufactures that it did not export, or exported on only a minor scale to Europe. However, GATT's silence regarding the programme was highly revealing as to the fate that observance of its principal rules would meet with in time.

Although the whole of GATT's tariff negotiation régime is based on the weighted average, this could not prevent the external tariff for the European Common Market from being based on the arithmetical average. At GATT's request, negotiations were held to compensate countries whose interests were impaired by the EEC common tariff, but the Latin American countries affected were not satisfied with the compensations obtained.

The lack of any statement by GATT on the compatibility of its provisions with the principles of the statutes of association between the EEC and the eighteen African countries was a further source of

/concern to

concern to Latin America. The statutes in question extended the geographical scope of the Franc Zone preferences and, although EEC spokesmen in GATT maintained that the association constituted a free-trade area, that régime was not explicitly contemplated in the instrument of Association. By voicing no opinion, GATT tacitly agreed to the marked increase in discriminatory practices imposed by the Association.

The action taken by Uruguay is a further illustration of the Latin American countries' position as regards observance of GATT rules. A survey carried out by that country showed that its exports are subject to more than 500 non-customs tariff restrictions, many of them in violation of GATT since they are applied by countries with no balance of payments problems. The slow and difficult progress made in Uruguay's negotiations for the removal of those restrictions and the application of reprisal measures point to the little real value that GATT's rules can have as an instrument of protection for the developing countries.

On a more general plane, the Latin American countries have striven to achieve ratification of some measures aimed at solving the serious problem posed by the decline in their foreign trade, largely due to the policy followed by the industrial centres which are fostering trade in raw materials between one another, to the detriment of their traditional suppliers. However, in discussing such possible measures they have realized that they lack adequate support in GATT, since there are very strong interests - including of a political nature - militating in favour of the extension of preferences and the maintenance of quantitative restrictions. In those circumstances and without the support of the EEC countries, an Action Programme has been drawn up (see section B, paragraph 5 of the present chapter) which, if put into force by the major nations, would result in an improvement of the developing countries' international trade possibilities.

The Action Programme does not refer specifically agricultural exports from the temperate zone which offer far from encouraging prospects for many countries in process of development. Nevertheless, some proposals of interest to the developing countries have been put forward both in GATT and at the second preparatory meeting of the United Nations Conference on Trade and Development for the organization of agricultural markets at the world level. Although these ideas have not been given sufficiently concrete form to examine them fully; it is noted that the concept of efficiency and specialization inherent in GATT rules has been discarded in favour of a system that will guarantee more remunerative prices, but which could signify for Latin America the danger of gradually losing its relative position in the large industrial centres, since no mention is made of assuring exporters of a share linked to the growth of demand.

Recently GATT has embarked on an initiative which may have most fruitful results, namely, that of obtaining some advantages for the developing countries in the forthcoming negotiations (Kennedy Round) such as that of applying to their own exports to the large industrial centres, without reciprocity, the tariff reductions which the major nations may decide in that round.

/GATT has

GATT has taken no action with respect to trade relations between the market economy countries and those with centrally planned economies, despite the fact that trade with the latter opened up important possibilities for expansion and diversification of exports from the developing countries. GATT's inactivity in this connexion has had far more harmful results for countries in process of development than for the Great Powers which in themselves wield sufficient political and economic power to take up their own position with regard to trade with countries with centrally planned economies.

All the facts mentioned point to the need to consider whether GATT can adequately serve on universal bases for the remodelling of international trade. Although those same facts can be interpreted from different angles, there can be no doubt that the under-developed countries' claims have not met with a very favourable reception in GATT. This agency seems to be adapted rather to the requirements of trade between the industrialized market economy countries, to which no doubt it is exceedingly useful. The general reduction in customs tariffs expected from the Kennedy Round would be difficult, if not impossible to achieve without GATT's aid. These considerations make it possible to forecast that GATT will have a place in the new structure that may emerge from the United Nations Conference on Trade and Development. However, taking into account the orientation imposed on international trade by the industrialized nations, the developing countries would have ample grounds for demanding prompt and vigorous action based on rules compatible with actual trade conditions fitting into a suitable institutional framework.

In this respect, it is worth while examining the rules contained in the existing statutes of GATT as regards protecting the economic growth of the less developed countries. These rules are based on waivers from specific obligations that can be granted to developing countries. Hitherto, countries have not on the whole had recourse to waivers because they consider the rules for protection of the balance of payments in order to encourage the establishment of certain industries as more flexible and far-reaching. All this leads to the conclusion that positive provisions would be more useful than exceptions to the general rule as in GATT, even if their number had to be increased, and that it is doubtful whether this agency can provide a suitable framework for systematizing international co-operation in the interests of solving the problems of under-development, in so far as they are related to foreign trade.

Moreover, the new exceptions to the general rule cannot be put into practice under the terms of the GATT Charter - unless each and all the Contracting Parties deposit the instrument of ratification in respect of the relevant amendment, a procedure which can be more difficult and burdensome than concluding and putting into effect a new international trade agreement containing positive measures of international co-operation in the interests of the under-developed countries.

A fuller examination is made below of the instruments and ideas that have awakened interest as a possible solution to the developing countries' foreign trade problems. Although all these questions are widely known, it was considered advisable to include them in the text so that they can serve as criteria for drawing up the guiding principles of the most suitable trade policy for Latin America, in face of the serious circumstances created by the adverse evolution of its foreign trade, and to discover how far the efforts now being made at the international level and the concepts discussed thereat are adequate to assure the under-developed countries of the trade expansion they need.

B. THE HAVANA CHARTER

The Havana Charter has the merit of being the first systematic attempt to organize world trade. In stressing full employment and economic development as important aims in expanding and giving new impetus to foreign trade, it embodies some of the basic concerns of the present-day world.

The limitations inherent today in its trade policy regulations ^{3/} responded to the different political and economic circumstances in which it was drawn up, but even so, its projection through GATT to the present time and other manifestations of international activity, in particular commodity agreements, are evidence of the outstanding role that should be attributed to it.

Two years of difficult negotiations culminated in the final version of the Charter being signed on 24 March 1948. The initiative came from the United States, whose Government in December 1945 published what is known as the Clayton Plan concerning proposals for world-wide expansion of trade and employment. This Plan, whose object was to make full use of potential human resources and to raise living standards, was based on six principles, namely: (a) expansion of foreign trade; (b) freedom of private enterprise; (c) multilateral trade; (d) elimination of preferences; ^{4/} (e) a stable trade policy; and (f) international co-operation.

The Plan was based on the United States' aim to participate actively in a widespread international co-operation movement.

Three preliminary drafts of the Havana Charter were drawn up and at the preparatory meeting held at Geneva in 1947 a large number of amendments proposed by the 46 contracting states were examined. At the same meeting the General Agreement on Tariffs and Trade was prepared as a provisional instrument which was put into effect by a group of countries in 1948 to facilitate tariff negotiations and to expedite compliance with some of the rules of the broader instrument to be known as the Havana Charter.

The Charter was formally studied at the United Nations Conference on Trade and Employment, which opened in Havana on 21 November 1947 and was attended by 56 delegations. (The USSR was not represented.) The Charter was signed on 24 March 1948 by 53 countries, with the abstention

^{3/} The same as those pointed out in the following section with respect to GATT.

^{4/} Despite the unconditionally multilateral spirit imbuing the original United States proposal, the Charter, as mentioned before, left intact the British Commonwealth, Franc Zone and other preferential blocs, and further respected bordering or sub-regional systems of special tariff treatment of little practical significance which some of the Latin American republics excluded from the multilateral commitment assumed upon signing the Charter.

of Argentina, among others; but at the announcement by the United States and United Kingdom Governments in 1951 that they did not intend to submit it again for parliamentary approval, the instrument was never put into effect.

Its general principles, integrated as far as trade policy is concerned with the unconditional application of most-favoured-nation treatment, are the following:

- (1) That barriers to trade, other than tariffs, should be eliminated or minimized;
- (2) Acceptance of customs unions and free-trade areas that are subjected to specific regulations;
- (3) Non-discrimination in trade relations between states;
- (4) That state-trading operations should be governed by the principles that apply to private trade;
- (5) That subsidies should not be used to obtain more than a fair share of the world market;
- (6) That international trade should not be restrained by public or private monopolies or cartels;
- (7) That inter-governmental agreements with respect to trade in primary commodities should conform to established principles; 5/
- (8) That the maintenance of industrial stability and fair labour standards are essential to the expansion of world trade; and
- (9) That international private investment, if afforded security, will promote economic development.

The provisions of chapter VII of the Charter relate to the aforementioned International Trade Organization, which ought to occupy a prominent place among the United Nations specialized agencies. The purposes and objectives of the Organization, as set out in article 1, are briefly as follows:

- To assure an increment in the volume of real income and effective demand, to increase the production, consumption and exchange of goods, and thus to contribute to a balanced and expanding world economy;

5/ Chapter VI of the Charter includes a definition of these commodities; objectives of agreements; special studies and meetings; minimum conditions governing commodity agreements; administration and duration of agreements; settlement of disputes; relations with other inter-governmental organizations, etc. The provisions contained in this chapter have served as a basis for the operation of United Nations study groups and for commodity agreements.

/- To foster

- To foster and assist industrial and general economic development, particularly of those countries which are still in the early stages of industrial development, and to encourage the international flow of capital for productive investment;
- To further the enjoyment by all countries, on equal terms, of access to the markets, products and productive facilities which are needed for their economic prosperity and development;
- To promote on a reciprocal basis the reduction of tariffs and other barriers to trade and the elimination of discriminatory treatment in international trade;
- To enable countries, by increasing the opportunities for their trade and economic development, to abstain from measures which would disrupt world trade, reduce productive employment or retard economic progress;
- To facilitate through the promotion of mutual understanding, consultations and co-operation the solution of problems relating to international trade, employment, economic development, trade policy and practices, and primary commodities.

Its functions, as defined in article 72, include the following:

- (a) To collect, analyse and publish information relating to international trade and all other matters connected therewith;
- (b) To encourage and facilitate consultation among Members on all questions relating to the Charter;
- (c) To undertake studies and, having due regard to the objectives of this Charter and the constitutional and legal systems of Members, make recommendations and promote bilateral or multilateral agreements concerning measures designed
 - (i) To assure equitable treatment for foreign nationals and enterprises;
 - (ii) To expand the volume and to improve the bases of international trade, including measures designed to facilitate commercial arbitration and the avoidance of double taxation;
 - (iii) To make a study, on a regional or other basis, of the Members' natural resources and potentialities for industrial and general economic development, and assist in the formulation of plans for such development; and to furnish technical assistance for the financing and carrying out of their programmes for economic development or reconstruction;
 - (iv) To promote the technical training that is necessary for progressive industrial and economic development; and
 - (v) To achieve any of the remaining objectives of the Charter.
- (d) In collaboration with the Economic and Social Council of the United Nations and other inter-governmental organizations, to

/undertake studies

undertake studies on the relationship between world prices of primary commodities and manufactured products, to consider and, where appropriate, to recommend international agreements or other measures designed to reduce progressively any unwarranted disparity in those prices;

- (e) To furnish advice and assistance to the Members regarding the Charter, its scope and application; and
- (f) To co-operate with the United Nations and other inter-governmental organizations in furthering the achievement of their economic and social objectives and the maintenance or restoration of international peace and security.

C. RECENT TRENDS IN GATT AND TRADE AMONG THE DEVELOPING COUNTRIES

The results of the bilateral tariff negotiations of unprecedented scope and magnitude, which were held at Geneva in 1947 at the time the Havana Charter was under consideration, were crystallized in the General Agreement on Tariffs and Trade (GATT). Apart from establishing regulations for negotiation machinery, this Agreement also ruled on such questions as tariffs, internal taxation, dumping and countervailing duties, quantitative restrictions, exchange arrangements, subsidies and State monopolies. These rules were designed to ensure enforcement of the tariff reductions and were similar to those laid down in the Havana Charter.

GATT came into being as a temporary instrument on the understanding that an international trade organization would eventually be created as the Havana Charter recommended. But instead of remaining a temporary and specialized agency, it has had to assume permanent and autonomous functions with respect to the major trade problems, and this explains many of the defects from which it suffers. Of these, the most serious, from the standpoint of the developing countries, is that a mechanism devised for the negotiation of tariff reductions as the great industrial countries understand the term, can neither fulfil the aspirations nor smooth out the negotiating difficulties of the less developed countries. Attempts have been made to remedy these defects from 1954 onwards, but have met with little success.

1. Ninth session

During the ninth session (October 1954 to March 1955), some amendments of interest to the developing countries were approved, such as that concerned with restrictions safeguarding the balance of payments. This is designed to prevent the imposition of restrictions that are not wholly justifiable and lays down rules for their control. At the same session, Article XVIII was modified with a view to permitting, in certain conditions, the application of protective measures conducive to economic growth and the adoption of quantitative restrictions to stabilize the balance of payments and to keep reserves at a high enough level to allow for the continuation of development programmes.

2. Trade in agricultural commodities

In the absence of an international forum for discussing general trade problems, GATT was compelled to examine the conditions created by the increasing disequilibrium and inequity of trade. In November 1957 it decided to request a panel of experts to study international trade problems, with particular reference to medium-term prospects, and production, consumption and trade levels in respect of agricultural commodities in every country. The panel, headed by Professor Gottfried Haberler, carried out this task in February and August 1958, and came to the following conclusions:

/(a) To

(a) To be put into practice, all the recommendations require the co-operation of the industrial countries, which will comprehend that, over the long term, such co-operation will redound to their own benefit since they need constantly expanding markets;

(b) The recommendations are: (i) extension of economic aid; (ii) adoption of anti-cyclic measures by each country; (iii) greater international liquidity; (iv) creation of buffer stocks; (v) reduction of revenue duties on tropical products; (vi) reduction of agricultural protectionism in Europe and North America; (vii) replacement of price supports for agricultural production by deficiency payments; (viii) less protection for minerals; and (ix) the avoidance of trade-diverting measures in regional groupings such as EEC;

(c) The rules and conventions applied in international trade show a lack of balance that militates against the interests of the developing countries, since they fail to prevent or limit the application of restrictions to those countries' trade, or the promotion of anti-economic production on the part of the industrial countries;

(d) The problems confronting the developing countries would justify the use of more controls there than in the highly-industrialized countries. But the situation is the reverse, since the latter tend to apply them too extensively as part of a policy of excessive protectionism. Moreover, they resort for that purpose to administrative or exchange arrangements which are not subject to trade negotiation.

3. Programme for the Expansion of International Trade

At the Meeting of Ministers in November 1958 GATT adopted a Programme for the Expansion of International Trade and placed the responsibility for the arrangements in the hands of three committees. The first organized a new series of negotiations on tariff reductions, which culminated in the Geneva Tariff Conference of 1960-61. The second committee was requested to study agricultural trade with particular reference to non-tariff protective measures and their effects on international trade. The third committee was given the task of studying other measures of trade promotion, with due regard to the need for maintaining or increasing the export earnings of the less advanced countries.

4. Meeting of Ministers in 1961

At the request of the developing countries, and recognizing that the efforts made by GATT had failed to achieve significant results, the 1961 Meeting of Ministers adopted, inter alia, the following conclusions:

(a) Tariff barriers: in view of the less advanced stage of development reached by certain countries, a more flexible attitude should be taken with respect to the degree of reciprocity to be expected from them;

/(b) Trade

(b) Trade in agricultural commodities: the establishment of bases was recommended for the negotiation of specific measures to facilitate the access of such commodities to world markets, and deep concern was expressed about the degree and extent of agricultural protectionism and its effect on world trade. A group was set up to study the question of cereals (followed by another group on meat);

(c) Obstacles to the trade of less developed countries: a Declaration on promotion of the trade of less developed countries was adopted. This recommends to the Governments of the Contracting Parties that they should remove quantitative restrictions, lower tariffs and reduce or abolish revenue duties affecting the exports of developing countries, lessen or eliminate the preferences benefiting certain developing countries to the detriment of others; limit the use of production and export subsidies liable to cramp the trade possibilities of the less developed countries; and, lastly, systematize the disposal of agricultural surpluses in the light of the guidelines laid down by GATT on 4 March 1955 and FAO's Principles of Surplus Disposal.

5. Programme of Action

Nevertheless, the progress made since the ministerial meeting of 1961 has not lived up to the expectations of the developing countries which, in May 1963, suggested a Programme of Action that was approved by the Contracting Parties but on which the EEC countries and the associated territories of Africa and Madagascar refrained from voting. Its basic points are as follows:

- (i) No new tariff or non-tariff barriers shall be set up to trade with the less developed countries;
- (ii) The quantitative restrictions on trade among developing countries shall be eliminated within a year. If special problems make this impossible, consultations should be held with the developing countries concerned, but the restrictions are in any case to be eliminated by 31 December 1965;
- (iii) The abolition of import duties on tropical products as of 31 December 1963;
- (iv) The developed countries shall eliminate the duties on primary commodities of importance to the trade of the developing countries;
- (v) The industrialized countries shall draw up, as soon as possible, a plan for the reduction and elimination of tariff barriers to the exportation of processed and semi-processed products from developing countries, providing for a cut of at least 50 per cent in present duties during the next three years;
- (vi) The industrialized countries shall undertake to effect progressive reductions in their internal charges and revenue duties with a view to abolishing them by 31 December 1965.

/The last

The last two points on the Programme of Action refer to the procedures for reporting on the progress of the measures proposed and to other ways and means of facilitating the diversification of the less developed economies, strengthening their export capacity and increasing their foreign exchange income.

6. Working party to study amendments to GATT

The meeting in May 1963 also decided to form a working party to study possible modifications in the present GATT text. It has already considered amendments relating to:

(a) An expansion in the foreign trade possibilities and income of the developing countries, as well as the diversification of their economies and other measures for promoting their development;

(b) A modification of the most favoured-nation clause for the purpose of making new preferential arrangements in favour of the less developed countries;

(c) Anti-dumping and countervailing duties. When the exports of the less developed countries are subsidized, the industrialized countries will not impose countervailing duties;

(d) Government aid for economic development. Provisions would be included on loans from the industrialized countries on favourable terms; and,

(e) The incorporation of the points contained in the Programme of Action in the Agreement.

7. Work of the Committees and Groups

Committees II and III have presented reports that are extremely useful for the evaluation of current trade policy problems. Special Groups have been set up independently of the Committees to study the problems that arise in the cereal and meat trade and it is planned to form another on dairy products. With the aid of the countries most concerned, these Groups review and discuss the implications and effects of the policies in force, as well as the immediate prospects of opening negotiations.

8. Kennedy Round

The Trade Expansion Act of 1962, which empowers the President of the United States to negotiate linear tariff reductions on all products or large groups of products, offers the possibility that substantial reductions in prevailing tariffs will be agreed upon during the Kennedy Round, which is to begin at Geneva in May 1964, and that, as a result, new prospects will be opened up for the developing countries' trade.

/The Contracting

The Contracting Parties to GATT are preparing to make use of the negotiatory facilities offered by the United States position, and the Trade Negotiations Committee (with the aid of the Special Groups) is drawing up the pertinent plan. However, it is still too early to determine the influence of these negotiations on the traditional exports of the developing countries or the manufactured goods that they may sell in future. As one of the principal negotiators, the United States considers that special attention should be paid to the particular needs and conditions of the developing countries, but the form ultimately taken by the negotiations and their effect on the developing part of the world depend on a number of facts and viewpoints in which Latin America will have little direct say.

This is all the more true in that the principal temperate-zone products are excluded in practice from the system of linear reductions, since in their case special bases including tariff aspects will be negotiated to pave the way for their entry into consumer markets.

/D. OTHER

D. OTHER INTERNATIONAL IDEAS

Some ideas have been put forward recently, mainly within the sphere of EEC, on the trade problems of the developing countries and possible ways of solving them. While some are not official plans, they have been proposed by high-ranking members of Government in the EEC countries and have been widely accepted. They should therefore be borne in mind in this chapter, and are accordingly set forth below, with some brief comments appended.

They are known respectively as the Pisani-Baumgartner, the Brasseur and the Mansholt Plan. In addition, outside the province of EEC but still in Europe, there is the plan prepared by Mr. Pierre Uri, under the auspices of the Atlantic Institute, and the United Kingdom proposals for the reorganization of their agricultural commodity market. These plans are eloquent testimony to the interest taken by Europe in the export problems of the developing countries.

1. The Pisani-Baumgartner Plan

This may be described as an attempt to organize the primary commodity market on a world scale, by means of a system of price supports based on the prevailing level in the higher-income countries, production controls and strict rules for market distribution. The plan was first proposed at the GATT Meeting of Ministers in 1961 by Mr. Wilfrid Baumgartner, the Minister for Economic and Financial Affairs of France, and subsequently completed by Mr. Pisani, the French Minister for Agriculture.

The Plan begins by assuming that the rules of free competition are not applicable to agricultural commodities, since the unrestricted play of such forces would bring prices down. Although EEC's common agricultural policy is intended to prevent them from falling and thus to assure farmers of an adequate income, the aim should be to raise normal world market prices to the levels prevailing in the higher-income countries.

This could be accomplished through a general agreement on the part of all the producer countries to base prices on those prevailing in the more affluent countries, and an effective system for preventing over-production. The current "free" price on the world market would thus be replaced by a single controlled price comparable to that paid for domestic production in the major importer area. If the countries acceding to the general agreement were to take pains to see that each commodity was traded internationally at the agreed price there would be no further need for subsidies.

It would of course be necessary for exporters to agree on the amount that each one would sell on the world market so as to keep the supply in line with demand. Any surpluses could be used for special transactions, such as food donations.

/Thus broadly

Thus broadly outlined, the Plan evidently deals with issues that are fundamental to the developing countries, which are largely dependent on their agricultural commodities:

- (i) Size of commercial markets: As high prices are expected to persist in the economically less efficient producer countries (e.g. those in EEC, and the United Kingdom), the level of production will obviously be maintained or rise even higher. Demand has little elasticity at its present level, so it may be assumed, on the basis of the present situation, that there will be virtually no commercial markets available in future.
- (ii) Allocation of shares to the exporter countries: If this were done on the basis of the existing situation, there would be scant possibility of expanding the share of the developing countries, whose exports have been ousted by the subsidized exports of the developed countries. Consequently, the chances of acquiring a bigger share of the market would be practically non-existent.
- (iii) Preservation of protectionist and development policies at all costs: Agreements of the kind embodied by the Pisani-Baumgartner Plan would mean, in practice, international acceptance of precisely those policies that have most profoundly affected trade in agricultural commodities.

2. The Brasseur proposals

At the GATT meeting in May 1963, Mr. Maurice Brasseur, Belgian Minister for Foreign Trade and Technical Assistance, made a series of proposals closely concerned with the industrial development of the less advanced countries. The plan is, in short, to establish industries in the less advanced countries, with the backing and participation of those that are more advanced. Such industries would take an active part in international trade, and the development of each one would be assured in such a way as to equip them to withstand foreign competition. Preferential treatment would be granted to them on a temporary and declining scale. They would thus be given an initial impulse by being allowed to enter the markets of the industrialized countries. The sponsoring countries, for their part, would have a say in the selection and financing of the respective projects.

Two main types of industries would be assisted: (a) those whose cost prices are too high to enable their products to enter the industrialized markets without special facilities; (b) those that would be highly competitive from the outset. The first group would need constant help until they adapted themselves to the conditions of international competition, while the second group would also be given access to the industrialized markets, but with the requisite safeguards to prevent serious damage from being done to local production.

/The proposals

The proposals made by Mr. Brasseur would be put into effect in the following way:

1. Acting singly or as part of a regional grouping, the developing countries would indicate the local industries that need assistance, that is, the types of production which should be given preferential import treatment by the more developed countries.
2. Each case would be reviewed by a joint committee composed of an equal number of representatives from the exporter and importer countries concerned. On the lines of the committee's conclusions, the importer countries would then grant selective tariff reductions favouring the sale of the relevant products on their markets. Although such concessions would not be reciprocal, their long-term effectiveness should be watched over by mutual agreement. The recipient industries to be created or promoted in the less developed countries should be fitted to compete eventually on a normal footing in the world markets, and should be established on a basis that is economically, technically and socially sound. The protection that they would enjoy in their home market would have to be substantial and even absolute at the beginning, but would thereafter gradually decrease until, while still keeping a reasonable margin of safety, they would be exposed to the full force of foreign competition if they failed to maintain a high level of productivity.
3. Preferential treatment for the output of the selected industries would take different forms; it might consist in the partial or total suspension of duties; lower duties up to a given volume of imports (tariff quotas); supplementary non-tariff devices, etc. To achieve their aim, the preferential measures should be temporary and scaled downwards. In other words they should be applied only until the benefiting industry had consolidated its position on the world market, and should be progressively reduced as it gained strength.

The importer countries granting the preferences should be in a position to safeguard their industrial structure against the market slumps that might be produced by the purchase of goods at abnormally low prices. As it is out of the question to close the market to such goods, these contradictory requirements must be reconciled. It will no doubt be possible to do so as market disruptions are usually short-lived.

One way would be to establish a joint system of compensatory rates to cover part of the difference between the normal market price for goods and the exceptionally low price at which they are supplied by the developing countries. The compensatory rate would be applied either when the goods leave the producer country or when they enter the consumer country.

/The rate

The rate would be fixed by specialized joint committees similar to those envisaged in (b), which would modify it periodically in accordance with the evolution of the particular market. The modifications should be flexible and be made in the light of the ultimate objective - that of normalizing and expanding the markets.

This plan, which has been widely publicized, reflects the developing countries' hopes of receiving preferential treatment for their manufactured goods in order to obtain a foothold on the industrialized markets. Such preferences are necessary in the majority of cases, but the fact that only a certain number of industries will be selected limits the scope of the system considerably. What the developing countries need is the certainty that their over-all industrialization effort, if properly designed for export purposes, will meet with a favourable reception in the industrialized markets. Given this assurance, they can embark upon the extensive process of reconstructing their foreign trade, but for them to be able to do so, it is essential that industrial exports should have the widest possible market. And this primordial requisite will not be satisfied by the concession of preferences to a few select industries.

Another source of concern is the opportunity which the method of selection suggested by Mr. Brasseur would give to the developed countries to chart the course of industrialization to be followed by those that are less advanced. It is feared in fact that the eventual part to be played by the industrialized countries in decisions of supreme importance for the developing countries may lead to the exercise of undue influence, suspicion and conflict.

3. The Mansholt Plan

On 5 November 1963, Mr. Sicco Mansholt, Vice-Chairman of the Economic Commission of the EEC, submitted to the Commission a set of proposals designed to accelerate the equalization of cereal prices in the Community. According to these, domestic prices for cereals, which are being fixed individually by the EEC member countries to eventually converge in 1970, would be equalized once and for all on 1 July 1964. For instance, the price of wheat would be set at a point midway between the French and German levels, which involves raising the former 17 per cent and lowering the latter 11 per cent. High prices would be maintained for feed crops on the assumption that they would continue to be in great demand on the Common Market.

The impact of price equalization in certain countries would be offset by (a) compensatory payments on a decreasing scale during a limited period to the agricultural sector of the countries where the price is lowered (e.g., Federal Republic of Germany); and (b) consumption subsidies, also on a declining scale, to the agricultural sector of the countries where the price is raised (e.g., France).

/The Mansholt

The Mansholt Plan is a reflection of the trend of developments in France, which has been steadily pressing for the formulation of a common agricultural policy by the Community.^{6/} The immediate aim of the Plan is that EEC should embark upon the Kennedy Round of negotiations with a definite stand on a question of such vital importance for the discussions with the United States.

The Parliament of the Community considered the Commission's proposals based on the Mansholt Plan at its session on 27 November 1963 and resolved, in principle, to endorse the introduction of a common price and the abolition of countervailing duties in inter-Community cereal trade. It recommended, however, that an evaluation should first be made of possible financial, social and trade policy repercussions.^{7/} On the same occasion, it pointed out that the negotiations of the Six within GATT during the Kennedy Round would be valid only if agreement had previously been reached on a joint over-all agricultural policy and concomitant price policy. EEC could not enter into any commitments until it had received proper compensation, particularly with respect to the organization of the world markets and the ensuing effects on their stability.

It is too soon to express an opinion on a programme which is being discussed and analysed at the present time by the Community. But a few comments at this juncture are permissible:

- (a) If the common price is not fixed at the level of the less efficient agricultural economies, it may lead to the beginnings of rationalization in the Community through the gradual elimination of marginal farming;
- (b) As the price is likely to be fixed at a higher level than in the lower cost countries, such as France, an extra incentive should be offered to production there;
- (c) It cannot be determined whether the effects of (a) and (b) will be to increase or to decrease the volume of cereals in the Community, but in any case some compensatory redistribution is to be expected;
- (d) It is to be inferred from this that, even if production is rationalized within the Community, it is doubtful whether the external repercussions of its agricultural policy would be very different as a result of the establishment of a common price level;

^{6/} Another question dealt with by the Mansholt Plan is the organization of world agricultural production. Its main aim, to begin with at least, is to stabilize agricultural protection at its present levels in each country. Any change would have to be decided by international agreement every three years. Should one country raise its domestic prices beyond the limits set by the agreements, it would have to offer some compensation to the others. These proposals are in keeping with the Pisani-Baumgartner plan for the world organization of markets and control of production and supply.

^{7/} Europe, Common Market/Euratom, No. 1708 (Luxemburg, 27 November 1963), pp. 5-6.

- (e) The adoption of a common agricultural policy would give the Community a unified standpoint with which to embark upon the Kennedy Round, but the results of its negotiations with the United States on the organization of world markets are unforeseeable.

4. The economic programme of the Atlantic Institute

A study by Pierre Uri dealing with various aspects of world economic policy^{§/} has just been issued under the auspices of the Atlantic Institute. It takes a fresh standpoint on the questions of surplus disposal policy and assistance to the developing countries which are of vital concern in connexion with the problem of international markets for agricultural commodities and hence to the developing countries. The programme of the Institute, which has aroused world-wide interest, is based on the fact that the United States exports of surpluses in the form of free or quasi-free gifts alone amount in value to 2,000 million dollars, and that the tempo of production and consumption in Europe is bound to result in further surpluses. At the same time, the world's requirements of cereals, fats and proteins that remain unsatisfied amount to some 5,000 or 6,000 million dollars annually.

The author claims that assistance in kind is instrumental in ruining the market. It is more apt to aid the producers of the surpluses than the recipients, since, through price relations and production incentives, it tends to preserve the rigidity that makes it impossible to carry out the necessary reorientation. Such donations are also liable to discourage local production in the beneficiary areas. Moreover, the fact that the agricultural policy of the major centres is developed and consolidated by favouring domestic production through constant price rises while pushing down world market prices is steadily widening the gap between one side and the other.

This situation calls for drastic remedies. For Mr. Uri one way would be to change the bases on which the major centres currently pursue their policy of food donations and domestic production subsidies. The first objective should be to stabilize, with the aid of the developed countries, the insolvent markets constituted by nearly all the countries with a food deficit. Instead of donations in kind, the developing countries should be given cash which would have to be spent on the purchase of foodstuffs. Thus the recipient countries would gradually win back their freedom of choice as regards the nature and origin of the products. Demand would again guide production instead of being led by it as at present.

The present system of financing by means of subsidies is apt to start a considerable movement on the same lines. Europe and the United States together pay out 7,000 million dollars annually for agricultural

§/ Pierre Uri, Dialogue des Continents (Plan, Paris, June 1963).

subsidies, price supports and surplus liquidation. With food donations discounted they spend less than 4,000 million dollars a year in helping the developing countries. If they were to transfer, for the purpose of lending assistance in cash, an increasing proportion of the 7,000 million dollars that are yearly assigned to their agricultural sector, the expansion in solvent demand would raise world prices and the income accruing to farmers would be self-sustaining.

Mr. Uri's view of the problem therefore calls for a reorganization of the world market on the basis of the solvent demand generated by the aid given in cash to the countries that now subsidize their agricultural production. But he omits to explain how the domestic agricultural production of the industrialized countries would develop thereafter, or whether the new conditions would really lead to a relaxation in their protectionist policy. Another question to be answered is whether the countries with small surpluses or none at all would be willing to allocate part of the sums they currently invest in their own agricultural production for the creation of a market which is of no particular concern to them and in which they will never be able to compete with the low-cost countries.

The programme of the Institute also deals with direct assistance for development purposes, which it links up, through stabilization formulas, with the balances of payments of the developing countries which export tropical products and raw materials that are subject to violent price fluctuations or to structural deteriorations. The essence of these formulas is that the developed countries should contribute to a fund in direct ratio to their national product and per capita national income, a system which has already been advocated in the plan of the Development Insurance Fund. As regards the distribution of the assistance, it would be wise to graduate it in accordance with the evolution of the recipient country's terms of trade. It is of course extremely difficult to make specific suggestions in this field that could feasibly be put into practice in the near future.

5. The United Kingdom proposals to limit subsidized domestic production and to regulate imports of grains and other agricultural commodities

The United Kingdom has recently informed the principal exporter countries of its intention to make some changes in its agricultural policy and system of importing grain and other commodities. These modifications, which the United Kingdom authorities would like to negotiate on a bilateral basis, would take effect on 1 July 1964, and are as follows:^{9/}

- (a) The levying of quantitative restrictions on domestic production helped by price supports. Amounts produced in excess of the

^{9/} Europe, Common Market/Euratom, No. 1647 (Luxemburg, 14 September 1963), p. 1.

/limits would

limits would have to be sold at market prices. The United Kingdom experts hope in this way to discourage marginal production;

- (b) The fixing of a minimum price for imports which exporters would undertake to observe. This price is the subject of bilateral talks between the United Kingdom authorities and a number of exporter countries.

In the case of wheat, for instance, the United Kingdom favours a price that is slightly above the minimum established by the relevant international agreement. Special measures would be taken to rectify the prices of the exporter countries that remain outside the system and sell their produce at low prices, probably variable countervailing charges of the same kind as the EEC variable levies.

The United Kingdom is of the opinion that this system would improve world market prices and pave the way for international commodity agreements. Official consultations have begun with most of the grain exporting countries, as well as with the Netherlands on pork meat and dairy products.

This initiative has two main objectives: to lessen the fiscal burden of price supports and to rationalize production. The first would be achieved by limiting compensatory production and narrowing the margin of difference between high domestic prices and import prices which would thus be virtually forced up.

Another implicit aim would be the creation of a favourable climate in the United Kingdom for a further approximation to the measures that are applied to agriculture in EEC, should the moment come to renew its attempt to join the European Common Market.

As a transitional stage between current protectionism and an open market system, the substantive aims of the United Kingdom project seem to be reasonable. But as the scheme would be administered by the United Kingdom, no opinion can be formed as to its effects without some knowledge of the specific limits set for domestic production enjoying price supports and of the prices established for imports. Unilateral administration of both aspects involves a risk, in that very high limits might be set for the production enjoying price supports and for marginal production as well. Unsatisfactory prices might also be established for imports.^{10/}

^{10/} France has pointed out that the United Kingdom's proposal to set the price of wheat a little higher than the floor price specified in the pertinent international agreement is unrealistic. In fact, at the present time, the world market price is much higher.

E. THE UNITED NATIONS' OVER-ALL ROLE VIS-A-VIS
TRADE PROBLEMS IN THE DEVELOPING COUNTRIES

The United Nations has always taken an active part both in the study of basic trade and development problems and in many of the attempts to solve them.

The efforts of the United Nations agencies and secretariat have culminated in convening the Conference on Trade and Development and its preparatory meetings. They have long been engaged in examining the situation of the world economy and that of the various regions, based specifically on studies by the regional commissions, and have insistently drawn attention to the crucial effect of foreign trade on development. The Conference at Geneva provides an exceptional opportunity to set out, both specifically and within a world context, the problems and prospects which to a large extent have been identified and analysed by the said United Nations agencies.

In addition to a general analysis, these agencies have taken part also in the specific study of the position with regard to the main primary commodities and have sponsored several of the initiatives and achievements in respect of commodity agreements.

Since the establishment of the Interim Co-ordinating Committee for International Commodity Arrangements in 1947, the Economic and Social Council, in 1953, set up the Permanent Advisory Commission on International Commodity Trade, which the following year became the Commission on International Commodity Trade. Study groups operate under the supervision of the Interim Co-ordinating Committee for International Commodity Arrangements and, while at the same time representing the preparatory stage of international agreements, fulfil a permanent role for purposes of inter-governmental action.^{11/} Each individual group is composed of representatives of countries substantially interested in the production, consumption or exchange of a specific primary commodity. It investigates all these aspects and reports to the Member Governments.

At the present time study groups are in operation for cacao, coffee, cotton, lead and zinc, rubber and wool. The existence of an International Coffee Agreement and its appropriate council may put an end to the group for this commodity.

Any action by the commissions and groups has in every case been subject to prior international commodity agreements referred to elsewhere in this document, which cover the following items: wheat, sugar, coffee and tin. An international agreement on olive oil has also been concluded to which no American country is a party.

^{11/} International Commodity Problems (E/3731, 14 May 1963).

F. VALIDITY AND EFFECTIVENESS OF THE RULES IN FORCE

The brief description of the salient international efforts and ideas for improving the conditions under which the developing countries' export trade must develop should be completed with some more detailed considerations concerning the shortcomings of the general regulations presently in force for international trade. Such provisions endeavour to create special new conditions, but in general are far from beginning to function effectively, or else they do not take into account the situation and needs of the Latin American countries.

Until such time as the necessary changes are effected, the developing countries will have to follow a realistic policy developing along parallel lines designed to obtain, on the one hand, the establishment of a suitable institutional framework for their particular needs within which the basic rules will be duly complied with, and, on the other hand, the enforcement of measures designed to mitigate or counteract the serious repercussions of the existing circumstances surrounding the world trade policy on their own economies.

The most important regulations in force that should be considered from this angle are GATT's, since they embrace about 80 per cent of world trade. Are they the most appropriate? Do they assure attainment of the goals which the developing countries have set themselves?

It must be recognized that in the last fifteen years GATT has made a useful contribution towards preserving some order in world trade. The maintenance of a considerable degree of tariff stability, the various negotiations on tariff reductions - which have taken place mainly between developed countries - and the progress achieved in eliminating quantitative restrictions on industrial products have favoured the expansion of trade and have yielded some benefits also to the developing countries. The rule concerning the multilateral nature of trade treatment through the general application of the most-favoured-nation clause represented a contribution by GATT to the smooth flow of international trade. These achievements have been possible partly because each Contracting State was aware that the limitations upon its freedom of action would have their counterpart in limitations on the others. Moreover, by the granting of waivers from the generally applicable obligations, these limitations were made more bearable for individual countries. In addition, the special needs of the developing countries regarding the regulation of their imports were to some extent met when the GATT rules were partially revised in 1955.

The achievements of GATT cannot, however, hide the uselessness of its efforts to maintain the developing countries' traditional exports at certain levels and stimulate them in the best possible way for achieving progress. Rules which are very important to the developing countries have not been observed by major countries, and many of the rules themselves are not of a nature to maximize the developing countries' export prospects.

/The failure

The failure to observe existing rules has been particularly evident in relation to agricultural commodities. GATT has thus been largely ineffective in checking the protectionist trend and the tendency to exclude imports which are manifest in most of the industrialized countries. While GATT rules were devised to apply in a practically identical manner to both industrial and agricultural products, their impact on the latter is being greatly reduced by the granting of extensive waivers to several countries, by a shift from one method of protection to another and by the non-observance in practice of the prescriptions. Committee II of GATT came to a similar conclusion when it stated 12/ that the extensive use of non-tariff restraints for agricultural protection "impaired or nullified tariff concessions or other benefits which agricultural exporting countries expect to receive from the General Agreement, and weakened or threatened to weaken the operation of the General Agreement as an instrument for the promotion of mutually advantageous trade". In spite of the frequency of the discussions on agricultural products in GATT, very few rules are applied with respect to them. In the words of the Haberler Report on Trends in International Trade, the countries affected "can legitimately claim that they are not getting the treatment for which they bargained when they first became contracting parties to GATT".

Equally serious is the problem posed by the trend toward regional groupings. Initially, GATT had established the realm of general unconditional most-favoured-nation treatment, with two exceptions which were narrowly circumscribed: preferences existing then were tolerated, but new deviations from most-favoured-nation treatment were accepted only as part of "a plan and schedule" for the formation of a customs union or free-trade area "within a reasonable length of time". The remaining trade between the constituent territories would be freed, and the barriers in respect of third countries should not, on the whole, be "higher or more restrictive than the general incidence" 13/ of the barriers existing prior to the formation of the regional grouping. These were deliberately strict conditions designed to prevent deviation from GATT's fundamental most-favoured-nation principle, but it can hardly be said that the countries composing the European Economic Community are strictly obeying them.

12/ Third Report of Committee II, 15 November 1961.

13/ GATT, volume I (revised edition), Article XXIV, 5 (a).

In the first place, everything points to the fact that the general incidence of the barriers in the trade of third countries, as it will remain in the EEC common external tariff, will be higher than that of the previous national barriers. In order to calculate the common external tariff, the arithmetical average of the national tariffs has been chosen as a basis rather than their weighted average. In doing so, the previous trade currents which were naturally greater in countries where the tariffs were low, were not sufficiently taken into account. The question of whether this conforms to the provisions of Article XXIV, 5, was left open in GATT. There is every indication that the level of general incidence will be much higher than the previous one. A foreign trade system based on variable levies completely isolates the internal market by giving absolute priority to domestic production, while depriving third countries even of that limited certainty of access which was ensured by the previous quantitative restrictions. Whatever might be the theoretical perfection of the system chosen, in practice the collective protectionism it establishes must lead to a considerable acceleration of the previous national protectionist trends. Yet, the provision of Article XXIV, 5, of GATT is precisely designed not to permit derogation from the most-favoured-nation clause if free trade within the regional group is achieved by excluding third countries.

In the second place, the Association between EEC and eighteen African countries does not provide for a plan or schedule for the establishment of a free-trade area within a reasonable length of time. Such a schedule exists only with respect to the Eighteen's exports to EEC. The latter's exports to the African countries will have to overcome the tariff barriers which each of the Eighteen maintains or establishes. That thus no reciprocal free-trade area can be established is the inevitable consequence of the different stages of development of the European and African partners of the Association. Under such circumstances, it does not seem possible to invoke Article XXIV, 5, of GATT to derogate from the most-favoured-nation clause. Since the African countries do not commit themselves to eliminate substantially all restrictions and tariffs, EEC - and particularly the Federal Republic of Germany and the Benelux countries, hitherto the third countries' best customers - cannot grant preferential free access to imports from the African countries without contravening GATT rules. Nor do such rules permit the Eighteen to extend to the other members of EEC the preferences granted to the former Franc Zone. By doing so in spite of such rules, Article I of GATT is clearly being contravened.

While GATT has hitherto not been effective in enforcing its own rules with respect to its basic most-favoured-nation principle, it is no less true that the examination of EEC's compatibility with Article XXIV has merely been suspended and could be resumed at any time. Meanwhile, however, the expanded preferential mechanism is continuing to be put under way, just as though GATT's approval were being taken for granted.

/The discriminatory

The discriminatory regulations regarding agricultural products are progressively entering into force, and talks are taking place to examine the extension of the system to other African countries. That the damaging effects of this have not yet been fully felt is not a conclusive argument, since it may be sometime before advantage can be taken of the possibilities of trade diversification that the Association offers the African countries.

Subsequent to the establishment of EEC, other regional groups have made rather broad interpretations of the exceptions permitted under Article XXIV of GATT, even if such interpretations concern relatively minor or potentially less harmful points. Be that as it may, since the EEC countries absorb one-fourth of world trade, the establishment of their regional grouping subtracted a sizable portion of that trade from the effective and complete application of the most-favoured-nation clause. It would therefore have been necessary to abide strictly by the conditions set forth in Article XXIV.

It is not the purpose of this study to question the obvious economic advantages that can be gained by the formation of regional groups, but merely to underline that those objectives should not and cannot be achieved by newly distorting the structure of world trade and particularly the already fragile trade of the developing countries. GATT's most-favoured-nation principle was meant to prevent this, but the pragmatic spirit which seemingly predominates in GATT has too often meant the acceptance of accomplished facts, thereby detracting from the effectiveness of a rule which was intended to be one of the corner-stones for improving the position of the developing countries.

What is more, the present content of GATT rules does not appear to be sufficiently adapted to the solutions required for the trade problems of developing countries nor for those of another group of industrialized countries which do not operate on the basis of a market economy. When GATT was set up, many of the developing countries had not yet attained independent international status and the countries with centrally planned economies hardly participated in international trade. Furthermore, a large number of the developing countries - most of the Latin American nations, for example - preferred not to accede to it, generally fearing a curtailment of their power to control imports.

While the search for multilateral rules applying to the specific needs of trade with the group of countries with centrally planned economies is just beginning, the problems which face the developing countries with respect to their exports have been actively discussed and studied by various organizations, but have only led thus far to a few commodity agreements designed mainly, as has been seen, to meet critical situations. As also noted in a separate part of the present study, the process initiated by the Haberler Report was doomed to failure in 1963, when several of the less developed countries proposed an action programme for translating it into action, and EEC rejected that initiative which has prevented the achievement of substantial results.

/All this

All this appears to indicate that new rules can only be arrived at once there is general recognition of the urgent and special nature of the developing countries' export problem and, consequently, of the need for special positive rules for these countries and their products. At present, the legal principle underlying GATT is to treat all countries alike, regardless of their relative position. In this sense, for instance, equal treatment for goods from all countries - with the exceptions referred to, which are also applicable to all countries - limits the measures which industrialized countries could adopt to favour exports from the developing countries taken as a whole.

The necessity for differential treatment presents itself not only with respect to the different categories of countries, but also for the different categories of products. In fact, the industrialized countries acting through self-interest and to the detriment of some developing countries have put the principle of differential treatment into practice for agricultural commodities of the temperate zone. However, when it is a question of acting upon this same principle with respect to tropical products which affect large sectors of the developing countries' economies, the resistance to satisfactory commodity agreements tends to be insurmountable.

If the unsatisfactory state of affairs with respect to the application of the present GATT rules and the establishment of new obligations continues, developments might follow a logical sequence. Thus, the lack of growth of the developing countries' export proceeds would induce them to push the import substitution process beyond economically reasonable limits, without taking advantage of the possibilities offered by international trade. The protectionist trends in developing countries and in the regional groupings would be unduly stimulated and the desirable degree of competitive pressure generated by world trade would gradually be eliminated. It might so happen, too, that the developing countries suffering the adverse effects of discrimination would wish to re-establish a balance by favouring products from industrialized countries that do not practise discrimination. On the export side, the countries with centrally planned economies might become the object of pressing demands for an increase in their trade with the developing countries. At the same time the Latin American countries, for instance, which are excluded from all preference areas, might be led to request that they be granted preferences by industrialized countries which thus far have not practised discrimination.

Thus a trend could be instituted towards three mutually exclusive preferential areas which would unite parts of the industrial northern, and parts of the less developed southern hemisphere. At a time when the political basis of most preferences is disappearing with the achievement of ever more real independence by the less developed countries, the economic relationships of the past would be strengthened and perpetuated. If GATT persists in its attempt to maintain the existing conditions of discrimination, mutual arbitrary discrimination might increase precisely when it has become imperative to organize world trade on a rational basis in conformity with general principles and new regulations.

Chapter V

REQUISITES FOR A NEW STRUCTURE OF INTERNATIONAL TRADE AND WAYS OF ACHIEVING SUCH A STRUCTURE

A. GENERAL PRINCIPLES APPLYING TO NEW RULES OF INTERNATIONAL TRADE

At the end of chapter I a list was presented of the main objectives of what would in fact constitute a complete policy covering development, foreign trade and international financial co-operation in support of the efforts of the developing areas to achieve economic growth. On the basis of those objectives, and in the light of the questions dealt with in greater detail in other chapters, the requisites for the success of such a policy must now be defined in terms of specific proposals or courses of action.

This implies the need for action in a number of fields, some of a general nature, and others covering trade with certain areas or in individual products with particular characteristics. Action of the first type relates mainly to the new rules that should govern the future course of world trade, to the financing of trade and development, and to an institutional organization that could most effectively assist, at the international level, in achieving the objectives and rules drawn up. Such objectives and rules should relate, firstly, to questions of trade between the various developing areas, and trade between those areas and the centrally planned economies, and secondly, to the groups of products that constitute the basis of Latin America's traditional trade (tropical and temperate agricultural commodities, fuels and mineral ores) and to other products that could be the basis for a greater diversification of the region's exports (manufactured and semi-manufactured goods and certain items of invisible trade, such as maritime transport). Each of these subjects will be dealt with in the sections that follow, the aim in all cases being to synthesize the conclusions and recommendations that finally emerge from this analysis and from the diagnosis presented in earlier chapters.

These recommendations in some cases relate to the need for immediate action aimed at relieving as soon as possible urgent problems and difficulties that can be dealt with promptly. Other recommendations concern long-term objectives that represent final solutions, but do not in any way imply that immediate action can be postponed. The specific action recommended should be undertaken at once, on whatever gradual and continuous basis may be most suitable.

This approach permits action at the two levels at which Latin America's foreign trade problems must be considered, the rapid expansion of external earnings that will have to come from the traditional trade flows, and at the same time the steady growth of these earnings, on a scale compatible with

/the requirements

the requirements of more rapid economic development, that must derive from a greater diversification of the region's exports and the expansion of its markets. Consequently in what follows the reference is not to a series of unrelated needs, some of which can be met while others are rejected, but of single components that together make up what must be regarded as a new and far-reaching on international trade policy. This policy must have one fundamental aim, taking precedence over any other consideration, and that is, that international trade must in future be the main channel through which the industrial countries express their support and sense of solidarity with the less developed countries.

In order to reverse the trends that are undermining the position of the developing countries in world trade, it is first necessary to clarify the general objectives proposed.

The new trend to be established must be directed towards a world pattern of production and trade that makes full use of the resources available and gives priority to the urgent needs of the developing countries. For this purpose the first contribution of the developed countries should be to eliminate the obstacles that hamper the trade of the developing countries, and seek practical formulas to increase the latter's export earnings in a manner that parallels the trade improvements achieved by the groupings in the developed areas.

Instead of increasing and expanding the preferential arrangements of the past, and thus maintaining what tends to separate the developing countries, the new trend should be to encourage recognition of what is in the interests of the developing countries as a whole and to facilitate the establishment of common programmes of action by those countries. Similarly, the new trend should facilitate the establishment throughout the world (in both the developed and under-developed areas) of regional common markets, but within the framework of a world trade that would permit such plans to develop on lines other than those of self-sufficiency, which rules out the advantages that a proper division of labour on a world scale could offer.

If there is to be a trade expansion of a nature and scope sufficient to be of real assistance to the developing countries, there must be a growing measure of integration in world trade, in which both the market and centrally planned economies must participate.

Although all these aims cannot be realized at once, it is essential to ensure now that no additional obstacles are placed in the way of their realization, and at the same time to take the first important steps towards achieving them. It is not enough to agree on a diagnosis of the problems besetting the developing countries, or merely to adopt general statements of desirable aims, as has so often been done already. What is needed is to establish specific rules and problems that involve actual obligations. This requirement for the work of the United Nations Conference on Trade and Development has been expressly set forth in Economic and Social Council resolution 963 (XXXVI), which states that "the fundamental problems

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of developing countries are well identified and that what is now required is a universal readiness to act and generally to adopt practical measures aimed at increasing exports and export earnings of developing countries".^{1/}

Although the implementation of such decisions mainly depends on specific undertakings by the industrial countries, it is clear that that alone will not suffice to improve the situation of the developing countries. If positive results are to be obtained, every fresh obligation assumed by the industrial countries must be accompanied by decisions and additional efforts by the developing countries, including the vigorous prosecution of their respective regional integration plans. In other words, the aim must be for the developed countries, by rectifying past trends, to undertake to establish the external conditions that will make it possible for the efforts made by the developing areas themselves to bear fruit.

Conclusions

What the foregoing implies in terms of immediate fundamental decisions and basic guiding principles and rules that should govern international trade in future may be summed up as follows:

1. The United Nations Conference on Trade and Development should set itself as a goal the establishment of a series of rules and specific measures to promote the export earnings of the developing countries. When the Conference deals with subjects for which no such rules and specific measures can be agreed on, the aim should be to formulate guiding principles, to establish suitable instruments and mechanisms for their implementation, and to undertake to apply them in practice in any action taken after the Conference.
2. The basic objective of any new measure in the field of international trade should be to assist the developing countries to achieve, and maintain on a continuing basis, at least the growth rate specified in the programme of the United Nations Development Decade. This could be brought about by rules to ensure an expansion of international trade such that it would cease to be a contributing factor to the blocking of the developing countries' efforts to attain a more rapid and sustained economic growth.
3. One requisite for such a trade expansion is a growing measure of integration in world trade, within a system of co-operative co-existence between the countries with market economies and those with centrally planned economies.

^{1/} Similarly GATT, in its declaration of 7 December 1961, established the need for practical measures that must consist in establishing specific programmes of action, and as far as possible setting time-limits, for the progressive reduction and elimination of the barriers to the exports of the less advanced countries.

4. The special characteristics of the exports of the developing countries call for the establishment of special rules for these countries and their products. In place of a formal equality of treatment, that makes no allowance for the unequal relative development of countries, a differential treatment would be needed based on the needs of the developing countries. This implies a redefinition of such basic concepts as the principle of reciprocity and the most-favoured-nation clause, to ensure that in future they do not stand in the way of the granting of the necessary concessions to the developing countries.
5. So that equal contributions can be made in assisting the developing countries, the new rules and measures should apply equally to all the developed countries with market economies, while measures of equivalent effect are applied to the industrial countries with centrally planned economies.
6. All existing preferences between certain of the developed and developing countries should be abolished within a period appropriate to the type of product concerned, with due regard for the need to enable the beneficiary countries to adapt their economies to the new rules and conditions of international trade. In place of the preferences of the past, new preferential systems should be established, in line with the requirements of the world of today, that extend their benefits to all developing countries.
7. In view of the pressing nature of the problems besetting the developing countries and the magnitude of the deficit in their export earnings, piecemeal measures cannot be effective. Consequently the measures set forth below, relating to various types of specific products, and other detailed questions, must be regarded as components of a single integrated policy on world trade.

B. TRADITIONAL PRIMARY COMMODITY EXPORTS

It is worth while stressing once again that the real value of any decisions adopted as to changing the structure of world trade, in order to promote the growth of the developing countries, depends above all on the effectiveness of such decisions as regards the traditional primary commodity exports. These constitute a very high proportion of the total exports of the less developed areas, and consequently they will continue, in the immediate and near future, to be the determining factor as regards the export earnings of the developing countries. Moreover the long-term aim of reducing the overriding importance of the traditional primary commodities, and effecting a progressive diversification of the exports of the developing countries, must be conditional on an expansion of trade in these products to obtain the resources essential for meeting the needs of internal development and the establishment or expansion of the activities that will permit this greater diversification of exports. Thus the two measures are inseparable, and neither can constitute a satisfactory solution in the absence of the other.

As previously stated, the nature of the obstacles involved varies widely from one primary commodity to another. Consequently it is necessary, in this final summing up, again to consider separately at least the main categories, tropical commodities, temperate agricultural commodities and mineral products. Generally speaking trade in the first category of products, which are exported by the developing countries, but also - as in the case of sugar, tobacco, oil, rice and cotton - produced in considerable volume and on a protectionist basis by the industrial countries, poses problems similar to those relating to the temperate-zone agricultural products.

1. Tropical products

For twelve of the twenty Latin American countries, the possibility of maintaining a satisfactory rate of development depends largely on the fate of their tropical export products in the world market. As previously stated, in existing circumstances the outlook for the main tropical products on the world market is very uncertain.

In the particular case of the Latin American countries, three main factors contribute to this uncertainty: the discrimination against the region's tropical products in some of the main markets, the high internal taxes on their consumption in some of the large importing countries, and the steady decline and violent fluctuations, in their prices. The serious problems that have arisen as a result of these factors call for fundamental solutions in each of these three fields.

The problem of discrimination is particularly difficult for Latin America, since it involves questions relating to other developing areas, whose desire for better opportunities for rapid economic growth is equally legitimate. Nevertheless it must be regarded as an essential element in

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any new international trade policy that it should strengthen the position of all the less developed countries to an equal degree.

The discrimination now existing in this field is highly prejudicial to Latin American interests, and is one more form of discrimination added to others that have been applied for a number of years. The extension to additional countries of the former preferences applying in the franc zone, combined with the existence of a system of Commonwealth preferences for over thirty years, has had the effect of virtually excluding Latin America from any preferential arrangement, and leaving it at a disadvantage compared with other developing areas.

Such a condition of isolation cannot continue indefinitely. If it is maintained, and even more if discriminatory preferences^{2/} are extended to yet more countries, the situation cannot be reconciled with the principle, firmly maintained by Latin America, of non-discrimination with respect to the origin of imports.

However, it does not appear inevitable that the Latin American countries will be forced to adopt any decisions of such a far-reaching nature. The special help being given to certain developing areas does not necessarily have to be at the expense of other under-developed areas, nor does Latin America's right to participate on an equal footing in the expansion of the industrial country markets have to be exercised at the expense of the fundamental interests of other developing countries.

An effective undertaking by the industrial countries to remove restrictions and limitations on imports and consumption of a range of products could result in a substantial increase in demand within a short period, and thus open up increasing export opportunities for all the developing countries, on an equal footing and to the benefit of all.

This is the basic question, in relation to which the problem of discrimination in respect of tropical products can and must be solved. Abolition of such discrimination would constitute, not an isolated measure, but part of a new international trade policy, whose effective application for the benefit of the under-developed world as a whole calls for unanimous agreement on certain basic principles, which would be wholly incompatible with the maintenance of this type of preference.

The need to establish the principle of equality of access by the developing countries to the industrial country markets, and the serious and pressing nature of Latin America's foreign trade problems, make it imperative to adopt immediate decisions in this respect. Consequently particular undertakings to effect partial and temporary reductions, as distinct from setting a definite date for abolition, would prove inadequate.

^{2/} Attention is drawn to the comments on bananas in chapter II.

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Although the agreement between the EEC and the African States is due to expire in 1968, if the Kennedy Round proposals to abolish all duties on tropical products (which would involve the abolition of tariff preferences) are accepted, the desired aim could be achieved fairly soon. For this purpose 31 December 1965 could be established as the time-limit, the same date as for the elimination of the domestic taxes referred to in subsequent paragraphs. In conjunction with customs duties, other discriminatory measures will also have to be abolished, in the form of quotas, discriminatory measures relating to monetary areas, tariff exemptions on a quota basis, preferences for imports from particular sources in the purchases of State bodies or autonomous public institutions, etc. A decision of this nature need not endanger the African countries' prospects of maintaining an increasing flow of exports in the future, in view of the expected expansion of the industrial country markets once those countries have undertaken to adopt the appropriate measures on the present restrictions and limitations.

One such restrictive factor is the internal taxes applied in some of those countries on imports or consumption of basic tropical products. It has already been pointed out what a large potential addition to trade would be involved in the removal of such charges, which now severely limit demand. It is not hard to justify their elimination in the context of a policy aimed at supporting efforts to increase the economic growth of the developing countries. Even if the effect of such taxes on demand were less than that suggested in some studies and reports,^{3/} it is unreasonable that they should be imposed on just those products that are exported by the developing countries. Fiscal habits of the past should not prevail over the needs of the present day, especially since it is a comparatively simple matter for the developed countries to replace such taxes by other means of obtaining the equivalent revenue.

One possible method would be for the developed countries to undertake to eliminate internal taxes and revenue duties on certain products within a given period. In this context the date proposed in the GATT Programme of Action seems a reasonable target, that is, 31 December 1965.

Furthermore, such undertakings should not be confined to basic commodities but should extend also to certain end products, whenever the commodities in question account for a high proportion of the total value of such products. It would thus be possible to avoid severe restrictions on demand because of the high price of the final product manufactured from the primary commodity, due either to internal taxation or high tariff protection. Such charges should be no larger than those applying to similar industrial products manufactured by the developed country itself. This measure would eliminate a further source of import restrictions. More specifically, the aim should be to agree on a rule providing that duties and taxes on finished products, of which a given percentage of the value

^{3/} See, for example, the Haberler report (Trends in international trade, GATT/1958-3).

is accounted for by tropical products from the developing countries, must be reduced to a reasonable level, that there must be no discrimination against such products, and that the establishment or expansion of an industry manufacturing such a product for export, in the countries that export the raw material, must not be hampered or discouraged. The last provision is particularly important in respect of certain processed items (such as coffee essence) that could well become large-scale exports. This point will be referred to again later in connexion with the export of manufactured and semi-manufactured goods.

Similarly, it is necessary to consider in detail the reasons for the substantial mark-ups applied in the distribution of certain primary commodities in the industrial country markets. There is often a wide margin between the c.i.f. price and the final consumer price of certain tropical products, even after taxes have been allowed for, and the difference is far greater than could be accounted for by the real cost of distribution. The reduction of such margins would also permit an expansion of demand. As this aspect of the problem is not sufficiently understood to permit specific rules to be proposed, it seems essential to undertake a thorough analysis of the causes of this situation as soon as possible.

The foregoing factors relate in the main to possibilities of increasing the volume of exports. The problem involved is complicated by a second problem, the basic question of prices, whose behaviour has been particularly unfavourable for the developing countries in respect of certain tropical products.

In this field single-commodity agreements are a suitable instrument for correcting, at least to some extent, the adverse effects of the market forces, especially in the case of products which, like tropical commodities, are threatened by the risk of excessive production in relation to a slow-growing demand. Consequently the question has to be considered in some detail.

Thus far it has been very difficult to reach agreements on tropical products. The only such agreement in force at present is the Coffee Agreement, which covers nearly all international transactions. With respect to sugar (dealt with more extensively in the next section), on the other hand, the agreement at present has no practical effect. This is due partly to the natural lack of interest, in the consumer countries, in changing conditions generally favourable to them, and also to the difference in bargaining power that sometimes exists between importers and exporters.

Another unfavourable factor is that for many of the developing countries the fate of certain goods is vital to their total earnings in foreign currency, whereas for most of the importing countries the same products represent only a fraction of the very diverse body of their purchases abroad.

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Furthermore, it is difficult to reach agreements on products that are exported only by developing countries. Coffee constitutes an exception, perhaps because its situation was particularly serious; the first step was an agreement between the Latin American producers, which was eventually extended formally to include most of the importers, once the exporters had achieved a united front. However, the operative stage of this agreement seems to have run into serious problems recently, as regards strict fulfilment of its terms.

The recent failure of the Cocoa Conference, for which a draft agreement was worked out over a period of many months, is attributed by the producer countries to a lack of understanding on the part of the main importer countries. The latter proposed a minimum price 20 per cent lower than the final compromise proposal by the exporters.

The heart of the problem is that thus far individual commodity agreements have, by their very nature, not been suitable for dealing with structural problems, and attack only the short-term difficulties. In addition the negotiation of such agreements has nearly always coincided with grave crises in the trade in the product concerned, affecting the exporting countries. Consequently the fact that they have tended to consolidate situations unfavourable to the latter is no more than might have been expected.

It is extremely difficult to obtain agreement by the contracting parties as to prices, which constitute the crucial problem of the present distortions of world trade. Moreover the agreements, in their present form, do not make much attempt to deal with problems that have a decisive effect on the price-formation process (preferences, discriminatory measures, restrictions, high taxes, etc.). Despite their limitations (described in some detail in earlier sections), agreements on tropical products undoubtedly represent a means of controlling market forces that, left unchecked, would continue to operate to the great disadvantage of the producer countries.

Thus far the agreements in force cannot be described as having had any other effect than to forestall an even more marked decline in the prices of the products concerned. However, the developing countries must obviously insist on the need for broad and ample support whenever circumstances make it advisable to balance production and consumption by artificial means. It is possible that by the measures to abolish restrictions and taxes referred to above, the market in a number of these products may recover spontaneously. Until this happens, and perhaps even after it has, multilateral control of the market will in many cases be required.

Be that as it may, previous experience indicates that the main aim of any agreements conceived as an integral part of a new international trade policy must not be confined to stabilizing temporary conditions, but must include an attempt to make good the deterioration brought about by the harmful action of market forces. In any case the producer countries

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should try to ensure that no further imbalances between production and consumption develop, and should take account of the price elasticity and substitution elasticity of the product, in order to anticipate the effects that any price increase might have on the volume of demand.

All this calls for a proper administration of the agreements. If the main purpose of the agreements is to protect the interest of the developing producer countries, they should not provide an excuse for countermeasures by the consumer countries when the natural market forces lead to increases in the price of the product concerned. In general such increases represent no more than a recovery to former price levels, either in absolute terms or in relation to the prices of manufactured products imported by the developing countries. Alterations in quotas, for example, should be governed strictly by the principle of protecting the interests of the producer countries. These factors, and the general operative aspects of the agreement, thus call for the co-operation and guarantee of the consumer countries.

Conclusions

The foregoing considerations can be summarized in the following main conclusions:

1. The high internal taxes that the industrial countries apply to the consumption of basic tropical commodities severely limit the expansion of demand, and deprive the developing countries of valuable opportunities to increase their exports. Consequently the aim should be to abolish these taxes no later than 31 December 1965.
2. The customs duties that the industrial countries apply to the imports of tropical products should also be abolished by a given date prior to 31 December 1965. Similarly, all forms of discrimination (quotas, long-term contracts, etc.) against tropical products exported from Latin America should also be abolished.
3. The abolition of discriminatory measures should also apply to those favouring other developing countries with respect to products manufactured from basic tropical materials such as banana meal, coffee extracts, etc.
4. The customs duties and internal taxes applied by industrial countries to final products containing a high percentage of tropical raw materials exported by Latin America should be reduced to a level that will not hamper the development of the industrial activity concerned in the country of origin, or restrict internal demand in the importing country.
5. As soon as possible a study by independent experts should be undertaken, on the causes of the very high distribution costs in certain industrial countries of a number of tropical products exported by Latin America, with a view to suggesting measures to avoid or abolish mark-ups that have no reasonable basis.

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6. The agreements on individual commodities could constitute an effective instrument to regulate the trade in particular tropical products, always provided that there is due emphasis on the basic aim of improving the situation of the developing countries, and that instead of confining attention to stabilizing existing conditions, an effort is made to restore more favourable terms of trade, without overlooking the need to ensure that any price increases that result do not have the effect of restricting the volume of demand.

2. Temperate agricultural commodities

As indicated in chapter II, the trends in temperate agricultural commodities during the post-war period have led to a serious distortion of world patterns of production and consumption of these items. The levels of protection afforded to the agricultural producers in the developed countries, by a wide variety of methods, are substantially higher than for manufactured products. The resulting artificial stimulus to production has tended not only to reduce considerably the share of imports in the total consumption of the developed countries, but also to lead to a growing volume of subsidized exports. The effect has been to reduce export possibilities for the countries that cannot compete financially with subsidized exports. In addition the exports that the developing countries have succeeded in achieving have often been paid for at artificially low prices as a result of the body of measures adopted by the developed countries. Hence the trade rules and principles now in force are either not applied or are circumvented in some way, because of the prevailing tendency towards self-sufficiency in the developed countries.

All these factors are the cause of great difficulties not only to the countries that are most favourably situated for agricultural production, which include a number of developing countries, but also to the economies of many of the industrial countries, through the levying of heavy charges on their consumers and taxpayers. Although social and national defence needs can justify certain special measures to protect agriculture, the measures now applied go much beyond what could be regarded as required by such needs. In fact attention to the social problems of marginal agricultural producers need not necessarily result in raising domestic prices to the level of the relatively less efficient producers, a level which is much higher than that of world prices, that is, the prices at which other countries can export the products concerned. By permitting and encouraging the survival, and even expansion, of high-cost agriculture in the developed countries this protectionist policy represents a brake on increased production in the developing countries and thus reduces their chances of increasing their earnings.

There is already a wide gap between the income levels of the rural population (and also the total population) in these two sections of the human race, and to continue an excessively protectionist policy means to contribute to a continual extension of this gap. This situation is

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aggravated by two other factors, the very much higher population growth in the under-developed world, and the difficulty of accelerating the transfer of the rural population in the under-developed countries to urban activities, especially manufacturing, which is also hampered by severe restrictions on the expansion of production and exports.

The foregoing argument applies not only to the developing countries that export agricultural products, but also to the deficit countries that now depend more and more on the purchase of agricultural surpluses to make up their supplies. The extremely favourable conditions on which these surpluses are sold - long-term credit, payment in local currency, etc. - discourage local production. By meeting increases in demand that local production cannot meet without delay, the surpluses can undoubtedly play an important part in solving emergency problems in certain parts of the world where limited purchasing power makes this type of help appropriate. But there is a risk of discouraging the agricultural development needed for the balanced economic growth of the recipient countries, since it is difficult for an agriculture in the process of technological transformation to compete with heavily subsidized imports sold against long-term payments.

To achieve a balanced development, the under-developed world must introduce in its production methods the same technological revolution as in the industrial countries, or something similar. This means that the developing countries must import not only the food and raw materials needed to raise their standard of living, but also the technology and know-how that will enable them to attain that goal.

Once the problem has been stated in these terms, the question arises of what is to be done to restore a more equitable pattern of agricultural production in the world. There is no doubt that the final solution of the problems presented is to eliminate the protectionist measures of all kinds applied by the industrial countries until a level has been reached that is consistent with a system of fair competition between the various producer countries.

As a first step towards this objective it seems obvious that there should be an immediate undertaking by all the developed countries to establish a ceiling to the body of subsidies and various forms of protection, consistent with the need to encourage a substantial increase in the external purchasing power of the developing countries through exports. This means that the developed countries whose protectionist policies have led to the distortion of international trade in this type of product must assume specific obligations to correct their agricultural policies, by reducing production subsidies and abolishing subsidies to agricultural exports.

Presumably the application of such measures will require the developed countries to take steps to transform the productive structure of their agricultural sector, including the transfer to other activities of those marginal producers who are unable to compete under the new conditions of protection. For this purpose the earnings of such marginal producers

/could be

could be supplemented by direct financial assistance instead of through the price mechanism or on the basis of volumes of production. Any other course would amount to encouraging anti-economic production, reducing domestic consumption through high costs, and providing additional profit to exactly those producers who do not need such help.

The foregoing undertakings would have a substantial effect on the volume of trade in a number of products. One of the conclusions of the Haberler report states that a great expansion of trade in primary commodities between the industrial and non-industrial countries could be achieved through a moderate change in the direction of protection away from the high levels they have reached in many countries. If the production of wheat, maize, barley, sugar and beef, for example, were reduced by one per cent compared with the 1961 level in the industrial countries where they are produced on an uneconomic basis, and if during the same year consumption were increased, also by 1 per cent, through a greater proportion of low-cost imports, it is calculated that the demand for imports of those countries would have increased by 15 per cent. ^{4/} These figures indicate how greatly the developed countries could improve the situation by making a comparatively small contribution.

In this connexion it should also be noted that increased imports of agricultural products by the industrial countries, as a result of adjustments in their domestic economy, would certainly be offset by increased non-agricultural exports.

A change in world production and trade in these products, always provided that it is effected in a suitable way, need not necessarily conflict with attending to the unsatisfied needs of the large part of the world that suffers from hunger or malnutrition. To judge by the dramatic figures given by FAO, about half the world's population is in this category. Most of these people belong to groups who do not have the means to pay for the food they need. Nevertheless, the present surplus-disposal methods used by the developed countries make it possible for those countries to maintain artificial stimuli to production. The effect is both to depress world prices and to restrict export possibilities for the countries that do not subsidize their exports, and, lastly to reduce the prospects of agricultural development in the countries that are receiving the surpluses. According to the observations of FAO, the sphere in which these surpluses are disposed of should be restricted, and should not include, for example, markets where there is no lack of funds to pay for them.

One possible approach to correcting the distortions created by the present system of disposing of agricultural surpluses would be to consider

^{4/} The calculation includes the United States and Canada for sugar and beef, and all the EEC and EFTA countries for those two items and for wheat, barley and maize.

the suggestions put forward in the Atlantic Institute publication referred to in chapter IV. The idea of providing the developing countries with additional purchasing power, so that they could buy their agricultural products where it best suited them to do so, would have the great advantage of giving a more multilateral character to the disposal of the surpluses. At the same time, by gradually eliminating subsidies, it would also lead to a better balance in the distribution of world agricultural production.

The distribution of the financial burden involved in such a programme would, of course, raise difficult problems, as indicated in chapter IV. Nevertheless such action, as part of a complex of other measures, could be useful in helping to re-establish a true world market for certain agricultural products.

Implicit in all the foregoing is the need for specific rules to be applied to trade in agricultural products in order to restore the conditions of a market based on fair competition. In chapter IV there was a reference to other ideas, such as those put forward by some spokesmen for the developed countries, on the subject of what is termed market organization.

These suggestions tend to take the existing situation as the point of departure. They involve, firstly, the payment for imports of prices to be brought into line with those paid to the domestic producer, and secondly, that use should be made of the present tendency to over-production in connexion with a general policy of nutritional assistance. In practice, however, the application of these ideas would raise a series of problems. The price level would apparently tend to approximate to that of the area producing at the highest cost. If this were so, there would be a risk of discouraging consumption and stimulating substitution. In addition, the higher the price thus arrived at, the more it would be necessary to limit the supply. If such limits were applied to the developing countries, their possibilities of financing their own economic development would be seriously reduced. It would also appear difficult to determine the criteria to be applied in establishing such limits. If the present output figures were taken as the basis, for example, those countries that now import large volumes would be penalized, because they would bear the main financial burden of the new system in the form of higher prices for their imports. The countries that have stimulated domestic production in order to eliminate imports will have to bear their share of the burden only if the internationally fixed price were low enough to discourage domestic production and thus lead to a resumption of imports. Moreover, if such a system were based on relatively high price levels, equally delicate problems would arise in connexion with the financing of the nutritional assistance to the areas of the world where at present there is no demand in the commercial sense.

From another standpoint, the prospects are not very promising that for this type of product single-commodity agreements could be more or less generally effective. Where such agreements could be useful, they should follow certain general guiding principles that appear fundamental (although naturally some adjustments would have to be made in accordance with the type of product).

/One such

One such principle relates to the desirability that the prices established, either for imported products or those produced domestically, should be at a level that falls within the range covered by the prices prevailing in the main high-cost and low-cost production areas. This would have the effect of increasing the earnings of the less developed countries, and would also reduce the incentive to marginal production in the industrial countries. In establishing these prices, there must be due regard for the interrelationship of the various products and the risks of substitution, which might mean that in some cases multi-commodity agreements would be necessary.

Another general principle relates to the need to ensure that any restrictions on supply that may be established are not based on the assumption that the developing countries are prepared to accept the present distorted structure of world agriculture. On the contrary, the essential aim should be to make sure that those countries can achieve levels of exports sufficient to meet their development needs. For the same reason, when eventually there are increases in the consumption of these products, the non-subsidized producers should be the ones to benefit, with a view to drawing progressively closer to what might be regarded as a rational structure of world production.

An attempt is now being made by GATT to solve the problem of the temperate agricultural commodities, and this will be one of the main subjects dealt with in the Kennedy Round. As the problem has existed for a number of years, there is no reason to drag out unnecessarily these negotiations that the developed countries have undertaken to carry out. In this connexion it is pertinent to stress once more that the difficulties that exist between certain developed countries should not lead to further delaying tactics that could lead to a further deterioration of the position of the developing countries. For the latter, any delay involves the risk of de facto changes that will leave their export products in a worse position than ever.

When GATT surveyed the EEC agricultural provisions in 1957, the EEC gave an assurance that the Treaty of Rome would not be used in such a way as to exclude imports ^{5/} and in 1962 again stated that neither the organization of the regulations nor the preference ... warranted any assertion that the system led in the long-term to an eviction of third country exporters. ^{6/} The fact that the task of working out a common agricultural policy is continuing in the EEC does not preclude the safeguarding of the interests of the developing countries. What has happened recently to the United States and the United Kingdom is a clear demonstration of the problems created by an excessively protectionist agricultural policy.

^{5/} GATT, Basic instruments and selected documents, 6th supplement, p.37.

^{6/} GATT, Report of Committee II, p. 110.

At the GATT meeting of Ministers in May 1963 it was stated that the aim was to establish acceptable conditions of access to world markets in order to achieve a substantial increase in world trade in agricultural products. If, despite this statement, the developing countries find that their share of exports to the various markets is reduced even further while the negotiations are proceeding, this will be clear proof of the failure to understand the particularly urgent needs of the developing countries, and the harm caused by the restriction of their traditional role as exporters.

In these circumstances the countries that depend on agricultural exports cannot be expected to accept without any compensation the non-observance of the elementary rules of reciprocity. If the reciprocity implied by GATT does not function, there is a risk that the developing countries would be obliged to resort to a more direct form of reciprocity through differential treatment of imports according to origin, to the serious detriment of increasing multilateralization of world trade.

Conclusions

The above considerations can be summarized in the form of the following conclusions:

1. All the developed countries should establish a ceiling to the *gody* of subsidies and various forms of protection to their production and exports of agricultural products, at a level that would permit a substantial increase in the external purchasing power of the developing countries.

For this purpose the developed countries should undertake:

- (a) To correct agricultural policies that, through the price mechanism, various forms of import restrictions and other forms of control, have constituted an obstacle to agricultural exports from the developing countries. This means the immediate adoption of measures to abolish variable duties, quantitative restrictions, prohibitive customs duties, preferential tariffs and other discriminatory measures.
 - (b) To make effective reductions in subsidies to agricultural production.
 - (c) To eliminate subsidies to agricultural exports.
2. Foreign aid to particular developing regions in the form of food products should not be at the expense of the export opportunities of the other developing areas or of the agricultural development of the recipient country. For this purpose there should be agreement in principle on the idea that this type of help should be provided in a form that increases the purchasing capacity of the recipient

/countries so

countries so that they can buy their agricultural supplies wherever it best suits them to do so. This will endow the disposal of surpluses with a more multilateral character, which, in conjunction with the progressive elimination of subsidies, will contribute to a better distribution of world agricultural production.

In addition, as long as there are surpluses that can be used to provide nutritional assistance, the exporter countries should also take part in administering the surpluses, in order to ensure that they are not used as a means of trade promotion.

3. For products with a low elasticity of demand of which there is an excessive supply, single-commodity agreements could, without prejudice to the foregoing recommendations, contribute to improving world trade conditions. To ensure their effectiveness, such agreements should take account (in the light of the type of product concerned) of the following general guiding principles:
- (a) The price paid for imported products and those produced domestically should be fixed at an appropriate level between the prices of the main high-cost and low-cost production areas.
 - (b) In establishing prices, account must be taken of the interrelationship of the various products and the risks of substitution. In some cases this would mean signing multi-commodity agreements.
 - (c) Any restrictions on supply established must not be based on the assumption that the developing countries are prepared to accept the present distorted structure of world agriculture, and should be such as to ensure that those countries achieve levels of exports sufficient to meet the needs of their own development.
 - (d) If there is any increase in consumption, the main benefit of the redistribution of quotas should go to the non-subsidized producers, with a view to drawing progressively closer to what might be regarded as a rational structure of world production.

3. Mineral ores and fuels

Trade problems relating to products of mineral origin and fuels are in some cases similar to those relating to products of agricultural origin, and in others somewhat different. The similarities relate to the duties and quantitative restrictions that protect production in the developed countries, and the discriminations in favour of certain areas and against others. Some of the special problems posed by mineral products and fuels derive from the fact that the bulk of their extraction, processing and marketing is controlled by international companies in the developed countries. The policy of these companies tends to have an unfavourable effect on volumes of output and exports, and on the possibilities of a

/greater degree

greater degree of local processing of these products. In fact the Governments of the producer countries usually have little influence on decisions as to the marketing of the products. The tendency of the companies concerned to establish their distilleries, refineries, blast furnaces, foundries and rolling mills, and other primary processing plants for mineral ores and fuels in countries that do not produce these items, prevents the developing countries from making full use of their natural resources. The present differences between the tariff treatment of raw materials and semi-processed products tends to consolidate and strengthen this type of production structure, and constitutes an artificial obstacle to the diversification of the exports of the developing countries and the increase of their export earnings. The efforts made to change this situation have encountered many difficulties, deriving from the unwillingness of the Governments and financial institutions of the developed countries to grant medium and long term loans that will enable such activities to be established or expanded in the developing countries themselves.

In formulating a new international trade policy, one of the basic principles that must be incorporated is the desirability of a more equitable structure of production for fuels and mineral ores and their products. For this purpose a very effective method would be to eliminate the tariff duties on semi-processed products; this point will be taken up again in connexion with exports of manufactured and semi-manufactured products.

As regards prices, the situation of mineral products has been relatively favourable in relation to that of tropical commodities and temperate agricultural commodities, since the mineral products have benefited more from the general industrial expansion in the developed countries. However, this does not mean that it would not be useful to reach single-commodity agreements in this field, always provided that the market forces alone have not led to a sufficient improvement in prices and their maintenance at satisfactory levels.

As the mineral products of the developing countries are in most cases essential to the industrial expansion of the developed countries, joint action by producers could have a powerful effect in ensuring more favourable conditions. However, action of this nature would often need to cover a number of products at once, in order to avoid substitution and strengthen the bargaining power of the developing countries.

Conclusions

If, in addition to the above general considerations, account is taken of the detailed background data set forth in the relevant chapters of the present document, the conclusions to be reached in relation to products of mineral origin can be summarized as follows:

1. The industrial countries must gradually abolish the customs duties, quantitative restrictions and preferential treaties concerned so that basic commodities of mineral origin from the less developed

/countries can,

countries can, within a reasonable period, compete on an equal footing with local production in the developed world. Such an undertaking should also cover intermediate products of mineral origin, in order to encourage the maximum degree of processing of the basic materials in the country of origin and make possible their direct sale on the world market.

2. In exceptional cases, when for security reasons or because it is vital to maintain the existing volume of production, certain industrial countries feel obliged to maintain some import restrictions, the prices they pay for the imported product should be the same as those paid for the domestically produced item.
3. The developed countries should support all measures taken by the Governments of the developing countries aimed at ensuring that the policy of the companies concerned is consistent with the general aims of the country's development, as regards volumes of output, marketing and degree of processing of the exported product.
4. The Governments of the developed countries and the international financial agencies should support the granting of medium and long term loans to national enterprises in developing countries for the exploration, exploitation and processing of their own mineral and fuel resources.
5. The support of the developed countries is essential in reaching suitable single-commodity agreements of this type, always provided that such agreements are needed to raise prices or maintain them at a higher level for the purpose of increasing to the maximum the foreign currency earnings of the less developed countries.

C. EXPORTS OF MANUFACTURES AND SEMI-MANUFACTURES

As pointed out several times throughout this document, the obstacles hampering foreign trade in the developing countries will not be overcome unless there is both a rapid improvement in the conditions affecting their traditional trade flows and a more far-reaching effort towards diversification of exports by means of the growing incorporation of manufactures and semi-manufactures.

The fact that the second requirement is a long-term objective does not warrant postponing the decisions and specific action without which it cannot be achieved. On the contrary, access by this type of product to the markets of industrialized countries must be provided forthwith, since only thus can investments be initiated and production in general organized so that good use can be made of such possibilities in the future.

In actual fact, access by manufactured and semi-manufactured goods to the markets of developed countries involves a number of factors. Some are related to generally applicable tariff reductions, such as those proposed in the United States Trade Expansion Act; others to the granting of new preferences to the developing countries as a whole, as also to the abolition of preferences already existing on discriminatory bases; and others to non-tariff barriers whose removal is imperative if any advantage is to be reaped from decisions in respect of tariffs. It would be as well, therefore, to consider each of these aspects separately.

1. Generally applicable tariff reductions

The next opportunity to deal with this factor at the international level will be provided by the forthcoming GATT tariff negotiations which will partly overlap with the United Nations Conference on Trade and Development. If successful, such negotiations could result in a 50 per cent tariff reduction for nearly all industrial products, which would constitute an important contribution to the formulation of a more rational world trade policy. From the standpoint of the less developed countries, that could hardly be an opportunity to obtain commitments on the necessary scale, since the resulting advantages would have to be generally applicable, in accordance with the most-favoured-nation clause. This does not mean, however, that the results will not be of interest. On the contrary, definite progress could be made on that occasion, provided that - as distinct from previous negotiations - account is taken of certain points which, if only partial, can represent substantial contributions to the developing countries. To that end, exports of special concern to the developing countries, such as those contained in the schedule drawn up by Committee III of GATT, should in the first place, not be among the few products that will be excluded from the linear reductions. In practice, as regards semi-manufactured products - excluded from previous tariff negotiations -, it might be contrived this time that any tariff reduction for a finished product be accompanied by at least

/equivalent tariff

equivalent tariff reductions for items at an earlier stage of processing. To comply with this, the developed countries would have to undertake not to apply any other measures - such as quantitative restrictions, specific customs duties which actually impose a higher tariff on the cheaper articles than on the more expensive ones, or non-tariff surcharges - which tend to curtail the benefits derived from tariff reductions.

If all these conditions are respected, future tariff negotiations will prove to be more useful to the developing countries than the previous ones, particularly where the tariffs are lower. However, tariff reductions based on the most-favoured-nation clause in the Kennedy Round will be able to provide only a part of what should become an over-all solution for the developing countries. Tariff reductions on a most-favoured-nation basis are frequently not sufficient to enable the processed products of developing countries to gain access to the markets of the industrialized countries. Because of the peripheral geographical situation of many developing countries, competitors with headquarters in the more advanced countries might indeed be the main beneficiaries of such general tariff reductions. Under such conditions, moreover, the under-developed countries would have to compete with producers that were not only highly efficient, but were also equipped with well-established marketing and distribution mechanisms, with free access to large domestic markets and a firm footing in the export markets as well.

2. Need for and nature of preferential treatment in respect of the developing countries

Such disadvantages can be overcome only by granting specific exemptions for products from the developing countries so that they can compete effectively on the markets of the developed part of the world. Yet the granting of such preferences necessitates a reversal of the present frequent tendency to oppose products from the less developed countries on the pretext of preventing market disruptions, while favouring more expensive products from the developed countries. If the latter are believed to have a relatively limited production capacity compared with the likely growth of consumption in the more advanced countries, the fears concerning the possible consequences of a preferential régime are much exaggerated, although real enough to make it necessary for any scheme of preferences to incorporate certain clauses designed to protect the interests of producers in the developed countries so long as they are legitimate. Similarly, it should be clearly established that such preferences would be merely a transitory measure to compensate for the developing countries' initial disadvantages, to enable them to gain access to markets in the developed countries and to establish new trade flows which would ultimately have to defend themselves by competing on an equal footing.

It is not difficult to justify the legitimate nature of such a preferential régime. On the other hand, the specific methods for granting preferences, and in particular their general or selective character, are open to further discussion.

The one that has hitherto been most discussed is the selective method, such as that put forward in the Brasseur Plan. Although this Plan has been set out in fairly detailed form in chapter IV, it is as well to remember that according to the method it suggests every developed country or group of countries would decide in respect of which products it would grant preferences, while the beneficiary developing countries would be those found to be capable of producing and exporting products covered by the preference. Each individual case would be examined by a joint committee, which would include representatives of the exporting countries and the developed importing countries, or it could be the object of bilateral negotiations. The necessary margin of preference, conditions and technical assistance would be determined in each case. In brief, the selective method implies that the preferences granted would differ in magnitude and that every developed country could, in principle, grant them for different products without necessarily extending them to all the developing countries.

While such a method would provide ample assurances to producers in the developed part of the world since they would have many opportunities for influencing the course of the negotiations, it would leave the developing countries in a state of great uncertainty as to what actual results would be achieved. The selection would presumably entail prior intensive market studies and difficult consultations with individual firms, with the serious risk that, eventually, one or another of the Governments will not grant the preference. Such a refusal would automatically reduce the chances of its being granted by other countries because the potential pressure on their markets might then increase. No less disturbing would be the fact that the preference might be confined to some developing countries. To sum up, the selective method would mean that to solve the developing countries' export problems the former item-by-item system of tariff negotiations would be revived with all its shortcomings already well known to the developed countries themselves, and this in a situation where the developing countries would have insufficient bargaining power to ensure results.

The serious deficiencies of the selective method point to the need for general preferences which would be applied in an identical manner by all developed countries, would benefit the developing countries as a whole, would cover all manufactured products and provide for a uniform preferential rate. The risks that such a system might entail for industry in the developed countries would be reduced to a minimum if it was agreed as a basic principle of the system that industrial products from any developing country may have free entry into all the developed countries provided that such imports represent, for each product, no more than a certain uniform proportion (say 5 per cent) of the importing country's domestic consumption.

The need for cumbersome negotiations for each individual product would thus be eliminated. Furthermore, while affording protection to producers in the developed countries - by limiting the preference for imports that do not exceed a certain percentage of domestic consumption - the considerable consumer power of the developed countries would offer a potential volume of exports which in the majority of cases and over a long period would far exceed the exporting capacity of the developing countries as a whole.

/Naturally, to

Naturally, to grant preferences for all products would inevitably mean that use would not be made of a good many of them; but it would have the over-riding advantage of permitting potential investors themselves to decide what lines of production to develop with a view to exports. While a preference on selected products implies the risk of channelling the developing countries' attention to a few products pre-determined by a somewhat rigid framework, a general preference is likely to prevent any concentration of export pressures that might originate in the developing countries. With such a broad scope, the advantages of the oft-changing relative cost situation can be reaped more easily, thereby promoting a pattern of exports from developing countries more in line with a rational division of world labour.

That the volume of imports exempt from customs duties should be measured in relation to a percentage of domestic consumption instead of a percentage of previous imports is justified by the fact that the latter criteria would grant exemptions to countries which have hitherto followed a highly protectionist policy in respect of the obligation to improve conditions of access. Furthermore, the volume of imports subject to preferential treatment ought to be exempt from customs duties since a tariff, albeit preferential, would still leave imports from the developing countries at a disadvantage with respect to producers inside a large regional or domestic market.

With a mechanism of this kind, imports subject to preferential treatment would be effected within the limits imposed by a tariff quota. Since for some time only a few products would approach anywhere near the limit of 5 per cent, the quota would in fact only apply to these. Thus free entry could be permitted for all products, accompanied by a certificate of origin issued by a developing country. Only if a sector of domestic producers and importers of those products from other developed countries so wish (for instance, because imports are nearing the limit fixed for domestic consumption), would the quota be established. In that case, the co-operation of domestic producers in furnishing the figures necessary for calculating domestic consumption would be obtained all the more easily since the figures will serve a purpose useful to them.

The concept of a tariff quota naturally implies that imports can exceed the limits set, but they would then be subject to the tariff imposed in accordance with the most-favoured-nation clause, which shows that reduction of this tariff in the Kennedy Round is also of significance in connexion with the adoption of a preference scheme.

All developed countries should take part in a scheme of this nature, so that none has to do more than its share in solving the developing countries' problems. Similarly, all the developing countries should have access to the markets of the industrialized countries under the preferential terms generally agreed upon. It would, however, have to be provided that imports of products from those developing countries which already enjoy previously established preferences would not be computed in the tariff quotas of a particular developed country.

/The purpose

The purpose of a general limit on imports which are to benefit from preferential treatment is merely to establish a minimum immediately acceptable to all the developed countries. If certain developed countries find that they can grant preferences to the developing countries on a larger volume of imports, they should not be prevented from doing so provided they extend these preferences to all the developing countries.

A general preference within the limits of a specific but relatively small share of consumption is designed to apply to all manufactured products for final use or consumption. With respect to products for intermediate use, the developed countries should assume more far-reaching commitments. Latin America, in the past, has encountered serious obstacles in exporting its more highly processed raw materials under advantageous cost terms. Yet, in a world of rationally organized production and trade the developing countries should be permitted to undertake the initial processing of the raw materials they produce. At present, the tariffs levied on semi-processed articles produced by the less developed countries are often higher than those applied to the primary product in its crude form and thereby render diversification of exports more difficult in those branches of activity for which the developing countries would often be particularly well suited. It would therefore be advisable for the developed countries to reduce the tariffs on imports of semi-processed products gradually, to the point of eliminating them within a reasonable period. Such a provision could be limited to all those semi-manufactures whose value added to raw material did not exceed a given percentage.

For this type of product, tariff exemption would not be confined to a certain percentage of total consumption in the country concerned; nor would a time limit be set for the tariff abolition, as in the case of preferences for finished products. Such a commitment would therefore imply a willingness on the part of the developed countries to envisage, on a world scale, structural changes similar to those they have undertaken on a regional scale. The stage at which the industrial countries now find themselves, with their economic integration plans already pledged to large-scale industrial adaptation, seems the right moment to act with the object of simultaneously arriving at a better division of world labour. To defer this task would mean that the developed countries' industries would have to suffer two consecutive series of adaptation processes, thereby entailing an unnecessary waste of resources. No doubt the elimination of tariff differentials will require a period of adjustment, but the difficulties would not appear to be greater than those encountered in establishing the regional groupings in Europe, for which a transitional period of ten or twelve years has been envisaged, during which the elimination of the tariff differentials would also be achieved, the more so since it provides more than sufficient time to amortize funds already invested.

If the period in question still fails to provide sufficient safeguards, the developed countries could be authorized to take the necessary steps to see that their domestic industry does not experience a reduction in its present volume of production, while ensuring that imports can compete on equal terms with the importing country's domestic production in regard to increased consumption of the semi-manufactured products concerned.

/Preferential measures

Preferential measures ought not to be dependent upon reciprocal concessions by the developing countries. At their present stage, the developing countries cannot really offer many concessions, with the occasional exception of the abolition of preferences existing in favour of some developed countries and to the detriment of the rest of the developed countries and the under-developed countries. Similarly, if the preferences are to be effective, the quantitative restrictions to which various industrial products are still subjected should be abolished and no new quantitative restrictions or internal measures designed to nullify the benefits expected from tariff reduction should be introduced,

The same purpose would be served by a change in some of the practices followed in the past by the developed countries to the detriment of the developing countries. Among these is the fact that tariff charges levied on products for local use and consumption in which a substantial proportion of their components is raw material from the exporting country are frequently far higher than the charges levied on other similar manufactured products. The developed countries should fix tariffs at a level that will not hamper the setting up of industries to process such raw materials in the country of origin concerned. The specific duties which impose proportionately higher charges on products of a lower unit value should likewise be eliminated.

From quite another angle, it is true that some developed countries already grant preferences in respect of industrial products to certain developing countries. Some of these preferences have existed for several decades and have created substantial export flows that have been very useful for the less developed countries concerned. Other preferences established in violation of the relevant GATT rule are very recent and have not yet led to currents of trade. In order to put the world pattern of preferences on a different basis the former pattern will have to be changed either by eliminating existing preferences or by extending their benefits to all the developing countries.

In order to prevent new distortions of trade to the detriment of the other developing countries, immediate steps should be taken to eliminate all preferences which have not as yet given rise to trade currents. Once such trade flows have been established and some developing countries are dependent upon them, the application of preferences should be limited to the volume of trade attained in the last few years, irrespective of the fact that they ought to be gradually reduced until they are eliminated within a period of not more than ten years.

3. Some non-tariff barriers

These then are the decisions that appear necessary with respect to preferences. It would, however, be advisable to supplement them with a brief reference to other non-tariff barriers to exports of manufactures and semi-manufactures by the developing countries.

/These include

These include agreements on cartels and patents concluded between foreign industrial and commercial firms, in particular subsidiary and affiliated companies and branches of international concerns operating from the more developed countries. Such agreements might have the effect of preventing the tariff reductions and preferences granted to the under-developed countries from, in fact, creating a real export flow of manufactured products. Thus, the advantages offered by the elimination of trade barriers might be lost. For this reason, it is considered advisable to take some precautions so that the advantages to be derived from the removal of such trade barriers or obstacles can materialize.

In the first place, since the existence of such agreements on cartels and patents could give rise in the future to controversy and claims, it might be wise to start thinking now of the possibility of setting up or organizing special machinery which will take cognizance of and pronounce upon any controversial factors of situations that might arise.

Secondly, since the need to create the means and expedients to guarantee full use of all export possibilities is implicit in the attempt to take advantage of the new opportunities created for the developing countries in external markets, consideration could be given to the establishment, under the auspices of the international trade organization or of regional groupings of committees for negotiations between representatives of international firms and of the Governments of developing countries, which will safeguard the legitimate interests of both parties.

A further obstacle, namely, the high distribution costs for Latin American exports, could be surmounted by the establishment of suitable institutions abroad whose function would be to market Latin American products at a minimum cost and with a maximum of efficiency. It is needless to say, recognized that direct contact or communication between producer and consumer is often an indispensable requirement for the establishment and maintenance of trade, and that as far as possible the regular channels should be maintained. On the other hand, for certain products and certain markets direct contact is not possible (e.g., in trade with centrally planned economies) or is beyond the resources available to the individual producer (e.g., when a new commodity is to be launched on a market where no suitable trade representation exists). In other cases, the prevailing arrangements result in too great a mark-up on the producers' price and point to the need for streamlining distribution and marketing activities.

For the more developed countries, problems of this kind are not so acute. By contrast, in the under-developed countries, the cost and organization required tend to be beyond the resources generally available. The problem could, however, be solved if the industrialized countries were prepared to co-operate in the efforts made by the developing countries to set up adequate marketing services for all products for which an improvement in the sales situation is needed.

/In the

In the same way, a need exists for a centre of trade information in each country, or on an international basis, to furnish producers in the developing countries with any data needed regarding the size and nature of the market; the tastes, needs or preferences of the consumer; the requirements of quality and consistency; the appropriate transport and delivery schedules; the packing, grading, health and sanitary legislation; the documentation and customs formalities; and such other matters as might interest a producer who, for practical reasons, could not establish his own commercial contact. While to some extent individual countries (or all the Latin American countries collectively) could maintain representatives abroad, it is considered that in view of the cost and specialized knowledge involved, a preferable solution would be for the industrialized countries to maintain such centres free of charge for the dissemination of trade information to producers in the developing countries.

Conclusions

It would be as well now to assemble all the considerations set out in this section in relation to the export of manufactures and semi-manufactures in terms of a series of conclusions deriving from the present analysis:

1. The developed countries should accord preferential treatment to imports of manufactured and semi-manufactured products from the developing countries. These preferences should be granted by all the developed countries in favour of all the developing countries in accordance with the following provisions:
 - (a) Provisions applicable to manufactured products for final use or consumption
 - (i) The industrialized countries should grant free-entry forthwith to imports of all manufactured products for final use or consumption, wherever such imports represent no more than 5 per cent of the domestic consumption of the importing country concerned. Moreover, in specific cases, any industrialized country may grant preferences exceeding that limit without extending them to other industrialized countries, provided they apply them to exports from all the developing countries.
 - (ii) The limits on free imports referred to in sub-paragraph (i) above would not include imports from developing countries which may have been created by virtue of previously established preferences.

/(iii) Any

- (iii) Any imports from the developing countries in excess of the limits indicated in sub-paragraph (i) would be subject to the relevant tariffs, in accordance with the most-favoured-nation clause.
 - (iv) The preferences established in sub-paragraph (i) would be maintained so long as the beneficiary country remains in the state of relative under-development which caused such preferences to be granted.
- (b) Provisions applicable to products for intermediate use
- (i) The developed countries should gradually reduce the tariffs on imports of semi-processed products until they are abolished within a reasonable length of time. Such a provision may be limited to all those semi-manufactures whose value added to the raw material does not exceed a certain percentage.
 - (ii) The developed countries would be authorized, for their part to take appropriate measures in relation to imports to ensure that no reduction occurs in the present volume of their domestic industrial production, while ensuring that imports can compete on an equal footing with the domestic production of the importing country concerned with respect to any increase in consumption of the semi-manufactured products in question.
2. The following commitments should be undertaken by the industrialized countries at the forthcoming GATT tariff negotiations (Kennedy Round):
- (i) The most important products exported by the developing countries should in no case be included among the very few exceptions contemplated in the linear reduction negotiations.
 - (ii) Full advantage should be taken of the system of linear negotiations to introduce, concurrently with any tariff reductions for finished products, at least equivalent tariff reductions for items at an earlier stage of processing.
 - (iii) No other measures - such as quantitative restrictions, specific customs duties or non-tariff surcharges - tending to limit the benefits expected from the tariff reductions in question should be introduced.
3. The developed countries should, in their future trade policy, take into account the following basic principles:

/(i) The

- (i) The adoption of measures should not be dependent upon reciprocal concessions by the developing countries, with the exception of the abolition of existing preferences that are detrimental to some developed and less developed countries.
 - (ii) To abolish existing quantitative restrictions that are applicable to intermediate products and those for final consumption, and not to establish new quantitative restrictions and internal measures that will reduce the effectiveness of the concessions granted.
 - (iii) In the case of intermediate products for final use and consumption, in which a very high proportion of the components consists of raw material, establishment of tariff charges at a level which will not hamper the setting up of industries for the processing of those raw materials in a developing country.
 - (iv) Abolition of specific customs duties that impose proportionately higher charges on products of a lower unit value.
4. Steps should be taken forthwith to eliminate the preferences granted to some of the under-developed countries by certain developed countries, provided that they have not yet led to the creation of trade flows. Once such trade flows have been established, the developed countries should limit application of preferences to the volume of trade attained in the last few years, irrespective of the fact that they ought to be reduced gradually to the point of eliminating them within a period of not more than ten years.
5. As regards other difficulties in the way of exports of manufactures and semi-manufactures by the developing countries, suitable machinery should be established to ensure that specific agreements for restricting trade (cartels and patents) will not defeat the purposes of the various measures designed to promote industrial exports from the developing countries. Likewise, the developing countries should make an effort to set up, with the co-operation of the developed countries, adequate marketing services for all products for which an improvement in the sales situation is needed, and to establish trade information centres to furnish producers in the developing countries with any data required.

D. TRADE IN INVISIBLES: MARITIME TRANSPORT

As set forth in Chapter II of the present report, the availability and regularity of maritime transport and the cost of freight are factors of paramount importance for the proper development of Latin America's foreign trade, 90 per cent of which is carried on by sea. The transactions motivated by such transport in terms of import and export freight payments represent some 2,000 million dollars annually, a sum which has contributed substantially to the deficit in the services account, since the share of the Latin American merchant fleets accounts for barely one tenth of the shipping involved in those transactions.

The almost complete dependence on interests outside the area for an element as vital - to the smooth operation of each individual domestic economy and to the development of exports - as shipping the need to reduce the severe drain on the balance of payments, represented by this item, as also the necessity of taking part in freight meetings with the object of being able to discuss freight practices and tariffs, not infrequently considered unsuitable or harmful, are among the motives which induced a number of Latin American countries to take measures to encourage the expansion of their own merchant fleets. Unfortunately, attitudes and initiatives are constantly adopting powers which make it very difficult to enforce these measures, even though they are essentially the same as those that have been, or still are in force, for identical purposes, in countries whose shipping enterprises are among the most powerful in the world.

In these circumstances, it is essential to remove certain obstacles to the expansion of the developing countries' merchant fleets, and to establish through shipping conferences, operating and tariff standards, in the formulation of which the users will be given first say.

The Latin American countries themselves will have to imbue this efforts with the necessary force to bring about changes in certain internal factors, whose adverse effect on freight rates and on the regularity of existing services is also very marked, as in the particular case of deficient harbour facilities. In this way maritime transport can make a better contribution to intensifying the region's foreign trade.

Conclusions

These general considerations and the more detailed background data set out in other sections of this document support, in brief, the following conclusions:

1. It is imperative that agreements be concluded as soon as possible with a view to:

/(a) Establishing

- (a) Establishing a system of compulsory prior consultation between the Governments and users concerned, on the one hand, and shipping conferences, on the other, with regard to maritime transport, its cost and any changes therein; and
 - (b) Ensuring that the freight rates established at shipping conferences be made public.
2. The agencies responsible for promoting world trade, as also the regional economic commissions of the United Nations, should undertake studies without delay - jointly or within their respective spheres of activities - enabling prompt action to be taken to strengthen the developing countries' foreign trade and merchant fleets. The following questions should be examined in particular:
- (a) Practices in force all over the world in respect to the granting of subsidies and other assistance to national merchant fleets, and the effect of such practices;
 - (b) Existing preferential treatment in such questions as reservations of cargo by flag, priority in the use of ports and the collection of differential freight rates; and
 - (c) Freight practices established by shipping conferences and the structure of tariffs.

E. TRADE WITH THE CENTRALLY-PLANNED ECONOMIES

Reference has been made in the relevant chapters of this document to the great trade potential which the possibility of inaugurating or expanding trade relations with the centrally-planned economies represents for the developing countries. But effective use of this potential depends on a number of basic factors and decisions.

The substantial intensification of trade between the Latin American countries and the socialist area naturally forms part of the more general problem of integrating world trade as a whole, which involves improving upon the sporadic and irregular nature of trade in the past between the market and centrally-planned economies.

The integration of world trade is clearly indispensable, since the efforts made to reshape it should be primarily aimed at providing greater possibilities for the developing countries. The ensuing responsibility that devolves upon the industrialized countries must naturally be a collective effort in which each one plays its part and undertakes commitments which, adapted to meet the requirements of their respective systems, would represent contributions of equivalent benefit to the developing countries.

There is no reason why differences in system should be an insurmountable barrier to the adoption of a body of basic principles determining the nature of the equivalent commitments vis-à-vis the less developed countries.

In fact, the possibility has already been mooted at some international meetings of establishing regular contacts for co-ordinating the plans of the developing market economies with those of the centrally planned economies in respect of the former's trade requirements. The existence of common rules and the progressive integration of the whole world economy might play a decisive part in making such contacts more effective.

In this general context of mutually beneficial co-existence, the joint responsibility of the advanced countries for helping those that are still at an earlier stage of development would stand out even more clearly. Although the commitments assumed by the centrally planned economies for improving the trade conditions of the developing countries cannot be equal, from the administrative point of view, they must in any case be of equivalent scope and magnitude.

Such equivalence is of course impossible to achieve through tariff reductions or the usual preferential systems, which have entirely different implications for the centrally planned economies. They have, however, a highly effective instrument at their disposal for obtaining it, that of quantitative import commitments on the part of the developing countries.

A commitment with quantitative targets, whereby the developing countries would have the possibility of including in their long-term plans and in their annual policy decisions on foreign trade, predetermined and increasing quantities of goods that are of interest to them, would in fact, be the most effective way of translating the contribution of the industrialized socialist countries into practical terms. Contacts for reviewing development plans and greater integration of world trade would, as said before, help to make this possible.

A commitment of the kind described would involve an assurance by each of the industrialized countries of its intention to buy, from the developing countries as a whole, a minimum annual amount of the goods exported by them in normal world market conditions and at the prevailing international price in the case of traditional exports, or with the use of preferential tariffs in the case of certain types of processed products.

Such purchases would go far towards solving the external problems of the developing countries while taking into account the capacity of the countries granting the concessions to adapt their economies to the necessary changes.

Equivalence cannot of course be confined to an over-all amount. It must also be extended to specific procedures for reaching the complementary goals mentioned in previous sections, with particular reference to the industrialized market economies. The foremost objective is that the benefits which the commitments are intended to confer should be offered to all the developing countries on equal terms, thus eliminating all traces of discrimination among them.

Moreover, it is presumed that these quantitative trade targets will implicitly reflect decisions aimed at rationalizing the distribution of world production and trade in specific commodities, by limiting - in the same way as was suggested for the industrialized countries with market economies - autarkic policies that are not justified economically.

Equivalence should also be extended to the kind of product included in the quantitative import commitments, so that full use may be made of the contribution of the industrialized socialist countries to diversify the exports of the developing economies. In other words, the commitments should cover not only primary commodities, but manufactured and semi-manufactured goods. As regards the last two groups, it is admittedly doubtful whether an over-all quantitative commitment would suffice or whether preferential tariffs would also be needed on the same lines as these already used by some centrally planned economies to channel their imports towards particular supply areas. These tariffs would ensure that the imports in question came from developing countries since the latter are bound to have to face competition from other more efficient producers, in the early stages at least.

/Again, certain

Again, certain features that are typical of current trade with the centrally planned economies will have to become more adjusted to the requirements and characteristics of the developing countries. For example, their decision to base the bulk of their trade on bilateral agreements will probably have to be accepted without question for the time being, since it is difficult for them to alter their mode of trade at present. But acceptance does not imply a relaxation of the efforts being made to increase little by little the elasticity of the bilateral arrangements. It ought to be possible for multilateralism to be established within COMECON, at least in the not too distant future.

Since Latin America has little experience in trading with the centrally planned economies, it might be useful for a regional office or agency to be set up to facilitate negotiations and even conduct them on behalf of the Latin American countries that were disposed to enter into an arrangement of this kind. An agency on these lines would be particularly helpful for the smaller countries, and all the more so as the mode of trade in question is new to the region. The agency should of course be adapted to fit into the final pattern that will emerge after the reorganization of world trade.

Conclusions

To sum up, the main conclusions to be drawn from these general considerations and the background information given in other sections are as follows:

1. The centrally planned economies should undertake to fix quantitative trade targets with the developing countries, and include them in their long-term plans and their short-term policy decisions on foreign trade. The targets should take into account the development requirements of the under-developed countries, in the new framework in which it is hoped that world trade will expand, and conduce to a more rational distribution of world production and trade in respect of certain products. In the case of manufactured and semi-manufactured goods, which, to be exported from the developing to the industrialized countries, need particularly favourable treatment on the part of the latter, the quantitative targets should be supplemented by preferential tariffs for the developing countries.
2. Although a substantial proportion of trade with centrally planned economies will probably have to be conducted through bilateral agreements for a time, the aim should be to place them gradually, on a more multilateral basis, thereby paving the way for a more effective expansion of world trade.

F. PROMOTION OF TRADE AMONG THE DEVELOPING COUNTRIES

Another factor that could do much to change the structure of world commerce would be the intensification of trade among the developing regions themselves.

The problem assumes various forms according to whether the developing countries in question are in the same or different regions.

In the first case, regional integration programmes are undoubtedly the most efficacious way of stimulating trade. Moreover, organizational patterns exist such as the Latin American Free-Trade Association and the Central American Common Market, which are not hampered by current international trade regulations, based on the exceptions already established by GATT to the most-favoured-nation clause.

The problem is quite different when the developing countries are not on the same continent, since specific preferences have to be established which are not intended to progress towards the complete elimination of tariffs, as in a free-trade area or customs union. The provisions in force make no allowance for partial arrangements of this kind. Then, too, a similar situation might arise if, for one reason or another, it was found difficult or impossible to create a free-trade area or customs union among sub-regional groups or individual countries on the same continent. It might also happen that countries would want to abolish duties on certain products in the same industrial sector, or as part of a plan to distribute only a few industries among themselves.

In all three cases, substantial trade flows might well be created. But if so, preferences would have to be adopted that would not be extended to the developed countries, which would contravene the rules in force. Consequently it is essential for new exceptions to be made to the most-favoured-nation clause so that arrangements of the kind envisaged can come into being.

Such preferences should not, of course, weaken or replace commitments to implement the more far-reaching regional plans. When they are applied between countries on different continents, appropriate measures would also have to be taken to prevent a new inter-regional trade movement from conflicting with import substitution activities on a regional scale and to avert the danger of forming a veritable mosaic of preferences.

For all these reasons, it would be advisable for the developing countries to complete their study of preferential and other measures to stimulate their mutual trade before framing specific proposals. They would be greatly helped in their task if an institutional structure is established after the United Nations Conference on Trade and Development, particularly if it is decided to set up a special mechanism to deal with the problems common to the developing countries.

/What must

What must be done, in the meantime, is to study the preferential systems already applied between certain developed and developing countries that militate against the development of closer economic ties among the less advanced countries. Firstly, that fact that preferential access to the markets of some developed countries is enjoyed solely by a select number of developing countries on the same continent may be impeding the creation of a region-wide common market, for one reason because investment would naturally tend to concentrate in the countries enjoying preferential treatment in the major industrialized markets. Investment would thus be diverted to the detriment of the countries without preferential access, which, in such circumstances, might doubt the wisdom of forming a common market with the more favoured countries. Secondly, some industrialized are accorded preferential treatment by some that are developing, while others in the latter category have no chance of competing on the same markets. These preferences, which are a relic from the past, are thus preventing the formation of ties between countries at the same stage of development and with similar interests. What is more, they are not vitally important to the countries that are granted them. They should therefore be gradually but swiftly abolished. And in no case should any developing countries be allowed to establish new preferential tariff reductions in favour of particular developed countries.

Conclusions

From the foregoing considerations, it is possible to draw some general conclusions at least on certain problems involved in expanding trade among the developing countries:

1. Proper use of the trade potential in the developing countries may entail the adoption of preferential measures designed for that purpose.
2. Before specific measures of this kind are worked out, it would be advisable for the developing countries to avoid the problems that might be caused by the indiscriminate extension of special preferences, through an over-all examination of the rules and principles that might best stimulate reciprocal trade.
3. Such rules and principles should be given special attention by the relevant institutional machinery that may be created by the United Nations Conference on Trade and Development as part of the ultimate aim of reorganizing world trade.
4. The preferences enjoyed by some developed countries in others that are developing should be abolished without delay, and the establishment of further preferences of the same kind prevented.

G. TRADE AND DEVELOPING FINANCING

The adoption of new rules and principles for world trade and the removal of the existing obstacles and limitations, as envisaged in previous sections, could do much to create a more favourable climate for foreign trade and thus give the developing countries a chance to surmount some of the main barriers to a more rapid and sustained growth of their economies.

But the question is not simply one of agreeing on and creating more propitious conditions in the light of two different considerations: on the one hand, the huge potential trade deficit of the under-developed regions and the fact that it will be difficult for the measures taken to bear fruit rapidly enough, and, on the other, the inadequacy of the internal financial resources that can be mobilized by the less developed economies - during an interim period at least - to meet the requirements of a more rapid rate of growth and to make full use of the new possibilities of expanding and diversifying their exports.

It is clear that trade problems cannot be separated from those of international financial co-operation for the developing countries, particularly, as the early part of this study points out, in view of the critical financial situation of the Latin American economies, their need of additional foreign capital and the changes that will have to be made in the terms on which such loans are serviced.

To get a better grasp of the problem it may be advisable to divide the question of financing into four basic aspects: long-term development financing; compensation for the adverse repercussions of the external terms of trade; short-term balance-of-payments loans; and foreign trade credits proper.

1. Long-term financing

The main problem is beyond a doubt long-term development financing. A lengthy examination of this problem to determine its magnitude and traditional pattern and the form it should take in future would be outside the scope of this document, but it is essential to point out at least a few general considerations that have a fundamental bearing on the question.

One of these desiderata is the need for external financing to be regarded not merely as one of the main factors directly influencing international trade, but also as an integral part of the responsibility incumbent upon all the industrialized countries to pursue the basic objective of accelerating the growth of the developing economies. This is not a responsibility which can be shouldered by certain developed countries vis-a-vis a particular number of developing countries; it must be viewed as a mutual obligation on the part of the whole of the developed world towards the under-developed areas in general.

The high degree of external indebtedness already reached by some regions, and some Latin American countries in particular, raises at least two additional issues: the need for external financing to be a complement to an investment effort which should be primarily based on the increasing mobilization of domestic savings, and the need to overhaul the terms, as regards maturity dates and rates of interest, on which such credits have customarily been granted.

Considerable progress has already been made in the former thanks to the fact that an increasingly large number of under-developed countries are resolving to adopt the policy of planning their economic and social development. The preparation of development plans brings in its turn fresh requirements as regards the trend of external loans which should be given as supplementary financing for the plan as a whole rather than for individual investment projects, as they used to be.

As regards credit terms, there are other important aspects to be borne in mind apart from the fundamental questions of maturity periods and interest rates. One concerns the limitations to the type of activity that can be stimulated by external assistance. What it amounts to, in the last analysis, is to prevent the implementation of certain practices, such as those formerly applied to certain extractive industries, which made it impossible for external resources to be used to start or develop activities that might be vital to the economy of some developing countries. This structure is equally applicable to external financing procedures which have sometimes tended to make financial collaboration conditional upon the purchase, in the lending country, of goods which the recipient can import with such assistance. This has turned out to be yet another obstacles to the growth of multi-ateralism in world trade.

2. Compensation for the deterioration in the terms of trade.

The general problems of long-term development financing are closely linked up with another which has had a profound effect on Latin America's economic development in the past, i.e. the deterioration in the region's external terms of trade. The impact of this phenomenon on income growth and the purchasing power of Latin American exports is well known; suffice it to recall the comparisons in the initial chapter of this document which show the enormous disparity between the increase in the volume of the region's exports and its actual foreign exchange earnings during the second half of the fifties.

More than once, in fact, the deterioration in the terms of trade has been so great that it has largely wiped out the positive effect of external financial assistance and nullified the efforts made to expand the volume of exports.

/But, despite

But, despite the overwhelming importance of this phenomenon, no steps have yet been taken specifically to recompense the under-developed countries for the losses they have suffered through it. Consequently, it seems only natural that, when a new international trade policy is to be framed, a factor of such basic importance should be included for consideration.

In reality, the future magnitude of the problem depends on the resolute and effective way in which the other problems raised in this study are tackled. Changes in the traditional trade policy of the major developed regions, the progressive diversification of the exports of the developing countries and, in general, the redefining of many of the rules and principles governing international trade, are all factors that would at the very least give much more stability to the terms of trade in the long run. Consequently, the more successful the efforts made to adopt and effect such changes, the less need there will be for a new compensatory plan to prevent a repetition of the severe damage that was inflicted upon the developing regions in the past.

This does not of course mean that, until such efforts have met with full success, no specific measures should be taken to protect the developing countries against a repetition of past experiences. Hence the importance attached to the proposal approved by the United Nations that a group of experts should be requested to prepare a compensatory financing project, which was submitted for consideration by the Commission on International Commodity Trade ^{7/} in March 1961 under the title of the Development Insurance Fund. ^{8/}

^{7/} United Nations, International compensation for fluctuations in commodity trade (E/3447 - E/CN.13/40).

^{8/} In the relevant General Assembly resolution the mandate of the group of experts was defined as follows: "to assist the Commission on International Commodity Trade in its consideration of commodity problems by examining the feasibility of establishing machinery, within the framework of the United Nations, designed to assist in offsetting the effects of large fluctuations in commodity prices on balances of payments; with special reference to compensatory financing ..." In their report, the group of experts considered "it essential that short-period fluctuations in primary commodity trade be seen in the perspective of the underlying trends affecting commodity markets. This approach is, in fact, suggested by the reference in the report of the Commission on International Commodity Trade to 'problems arising in compensation when fluctuations in export proceeds are due to causes of a structural origin relating to demand or supply'."

The scheme proposed is one of automatic compensatory financing for declines in the export proceeds of all the participating countries (developed or developing), computed yearly on a three-year movable basis representing the arithmetical average of export income in the three years immediately preceding the year in question.

The Fund is envisaged as a form of insurance (with benefits not completely repayable) or as a combination of an insurance scheme with a system of contingent loans. It is suggested that it should be financed in the following way:

- (a) Pro rata deductions on the basis of the value of the exports of all the participating countries;
- (b) Premiums to be paid by the developing countries in proportion to their gross national product; and
- (c) A combination of (a) for the low-income countries or primary producers and (b) for the industrialized or high-income countries.

The different formulas proposed show that it is extremely difficult to establish a criterion for the balanced compensation of losses in export income and that, as regards the variables chosen for determining contributions to the Fund, a few highly developed countries would always be called upon to finance the bulk of the scheme.

Established on these lines, the Fund's field of action would tend to be limited, and would not fully meet the essential requirement of offsetting the long-term deterioration in the terms of trade. The scheme does, however, embody some highly important principles, and the developing countries should therefore give it their full support so that it can eventually be equipped to play the important role that behoves it.

Similar observations may be made on the Fund for Stabilization of Export Receipts, which was proposed in 1962 by the Organization of American States. This plan is designed even more specifically to deal with short-term fluctuations, which are already covered (albeit less automatically) by the International Monetary Fund, as will be explained later.

/In short,

In short, the Fund suggested by OAS has all the limitations of the Development Insurance Fund. 2/ Moreover, the system of credit it envisages, which differs from the mixed system of social insurance and credit embodied by the Insurance Fund, the nature of the contributions and the system on which the resources deriving from both categories of participants would be used, do not seem to offer any additional advantages.

3. Financing of short-term fluctuations

In addition to development financing proper, and to the necessity of preventing or offsetting the adverse effects of the terms of trade, problems of yet another kind arise: those connected with financing requirements to cover short-term fluctuations, which fall mainly within the sphere of responsibility of the International Monetary Fund.

The importance of problems of this type is all the greater inasmuch as for the last ten years Latin America's monetary reserves have followed an uninterrupted downward trend, while its imports have increased.

The inadequacy of the purchasing power of exports has derived partly from the obstacles to the region's foreign trade, which have limited the growth of export volumes, and partly from the fall in prices registered in the case of several of Latin America's staple export commodities. Furthermore, the expansion of the capacity to import has also been retarded by net movements of capital; the growing burden of services has been cancelling out a steadily increasing proportion of the income accruing from new capital, and this, in combination with the flight of domestic capital abroad, has in some instances given rise to net deficits.

2/ The main difference between the OAS scheme and that of the United Nations is that the former is simply a revolving credit fund whose benefits are confined to the countries that are largely dependent on their exports of primary commodities.

The OAS Fund would be financed by capital contributions up to 1,800 million dollars, of which two-thirds would come from the developed countries (category B) and one-third from the developing countries (category A). The contribution of the latter would be proportionate to the value of their exports, and of the former in accordance with their trade and national income levels. The sum of the Fund would be calculated on the basis of the disequilibria observed during a period of reference (1951-59), with the addition of a 20 per cent safety margin. Only the countries that are members of the International Monetary Fund would be allowed to participate. The maximum credit available to a country would be 66 per cent of its export shortfall and up to 20 per cent of the total value of its exports (computed on a three-year movable base).

/While the

While the rate of growth of monetary reserves is slower throughout the world than that of trade, and as a result insufficient liquidity is the general rule, the process obviously assumes particularly serious proportions in the case of Latin America.

With the exclusion of Venezuela,^{10/} Latin America's total reserves amounted to 1,784 million dollars in June 1963, ^{11/} a sum virtually equivalent to the average balance-of-payments deficits of the same countries in the three-year period 1960-62 (1,736 million dollars). These reserves, as at the same date, constituted one and a half times as much as the aggregate International Monetary Fund quotas of the Latin American countries, whereas the official reserves of the members of the European Economic Community were almost eight times greater than their IMF quotas.

Thus, the inadequacy of their monetary reserves makes the Latin American economies particularly vulnerable to the effects of their trade balances when these are negative, as they have consistently been of late.

In such circumstances, the International Monetary Fund decided in February 1963 to authorize drafts of up to 25 per cent of the applicant's quota, to cover temporary shortfalls deficit in export receipts, provided that these represented short-term downward movements, attributable to circumstances beyond the control of the member country concerned. The Fund also declared its readiness to waive the limit - 200 per cent of the quota - set on its holdings of any member country's currency, whenever this was deemed necessary. For the purposes of graduating these credits, the Fund bases its calculations on the trend of export earnings, computed in terms of the income registered in the years immediately preceding the application, and on short-term prospects. ^{12/}

^{10/} Venezuela, Peru and the Dominican Republic are the only countries in Latin America that do not show balance-of-payments deficits in 1960-62; but the first of these is in an exceptional position, which justifies its being set apart from the rest of the region for the purposes of the present analysis.

^{11/} Official reserves: gold and foreign exchange in the possession of the Central Banks, plus the International Monetary Fund gold tranche, when available (see International Financial Statistics, September 1963, p. 17).

^{12/} The only Latin American country that has so far obtained a credit of this kind is Brazil (60 million dollars), and recently a second draft was authorized, this time for the United Arab Republic.

/Although most

Although most of the countries of the region are subject to the pressure of balance-of-payments difficulties deriving from the unduly low value of their exports, it seems unlikely that they will find it easy to comply with the conditions governing these new credits. What is undoubtedly true is that the critical situation of the region's foreign trade is not necessarily imputable to a fall in absolute levels of export earnings, although such a decline has actually taken place in some instances. While in many cases it has been successfully prevented by virtue of increases in the volume of exports that have offset price decreases, the commonest problem consists in the failure of export earnings to expand commensurately with the heavier import requirements deriving from the growth of the population and from economic development itself. But no provision is made to meet this situation in the Fund's existing regulations, although it is no different in essence from that created by mere contractions of income.

Even so, the efforts recently made by the International Monetary Fund, strictly within the limits of its sphere of action, undoubtedly constitute positive steps which could, moreover, be supplemented by further provisions to give them greater scope and flexibility. In this context, special mention should be made of the suggestions formulated by the Organization of American States, whose main proposals are as follows:

- (a) That in determining the magnitude of the decline in export earnings, more importance should be attached to their behaviour trends in the three-year period preceding the year in which the decrease takes place than to projections of exports for the two years immediately following it;
- (b) That an exception should be established whereby compensatory credits are treated as completely independent of the structure of the gold tranche ^{13/} and of other successive credit tranches, so that the fact of obtaining compensatory credits neither directly nor indirectly militates against a member's chances of obtaining a current credit;
- (c) That the amount allocated by the Fund to compensatory financing, over and above its current transactions, should be increased from 25 to 50 per cent of the member country's quota.

^{13/} The term "gold tranche" refers to those purchases of currency which do not raise the Fund's holdings in the currency of the country concerned above the value of the latter's quota.

The first of these proposals would give the scheme a higher degree of automaticity, which is a desirable aim; it could thus be further improved by the establishment of a provision that statistical evidence of a fall in income would be sufficient to sanction recourse to the Fund, with the consequent exclusion of all subjective elements from the consideration of applications.

The foregoing proposals would also be strengthened by a more flexible approach to the question of time limits for repayment of drafts authorized by the Fund, making them contingent upon the subsequent evolution of the capacity for payment of the country that was in difficulties. Moreover, an extension of current time limits, managed with the judiciousness characteristic of this institution, would not affect the liquidity of the Fund.

Lastly, attention should be drawn - even though only in passing - to the close relationship between these aspects of compensatory financing and those connected with the problem of international liquidity, a topic which has recently been arousing increasing concern in international circles. This question is not only of interest to the industrialized countries but also of great importance for the developing regions. Whatever remedial measures are applied should take into account the fact that for the latter the problem of liquidity is not of a transient or fortuitous nature, but springs from basic causes that will have to be attacked at their very roots - that is, by a reconstruction of international trade whose explicit objectives will be support for the developing countries, broader and better balanced world trade flows, and, in consequence, a more satisfactory distribution of monetary reserves.

4. Financing of foreign trade

In conclusion, to supplement the consideration of long-term development financing and compensatory financing of short-term fluctuations, attention must be turned to certain problems relating to the financing of external trade flows proper. In this connexion, some allusion, however brief, must be made to their historical background, to facilitate a more precise understanding of their nature.

The economic crisis of the thirties brought about radical changes in the field of international financing. One of its most serious effects was to put an end to the system under which the financing of imports and the purchase of imported goods represented entirely separate and independent operations. Until then, the importer had been free to make whatever credit arrangements suited him best in order to finance imports of the goods that were offered him on the most attractive terms in respect of price, quality and delivery times. This practice was gradually superseded by a new system, under which credit is granted to the producer with a view to its use as an instrument of competition to promote the exports of the recipient country. A new type of financing of international trade was thus created, generally known as suppliers' credit, with maturity periods ranging from 180 days to 5 years, but sometimes extended to 10 and even 12 years.

/Moreover, the

Moreover, the virtual elimination of long-term external financing operations has compelled the capital importing countries - i.e., those at less advanced stages of development - to have increasing recourse to suppliers' credit, as the only way of supplementing the extremely low rate of domestic savings and very limited means of external payment to the extent necessary for the attainment of a minimum acceptable rate of economic and social development.

Over-utilization of suppliers' credit in the financing of the economic development of less advanced countries has created serious problems both for borrowers and for lenders. The former have been gravely handicapped by a disproportionate accumulation of medium-term external debts, which has been reflected in a substantial decrease in their capacity for external borrowing and, consequently, in their development possibilities. On the other hand, the capital exporting countries have had to cope with unremitting pressure, both on the part of the borrower countries, whose aim is to get the time limits for repayment of suppliers' credit extended, and on that of their own exporters, engaged in the struggle to secure a better competitive position and thus increase their share in the markets of the developing countries. These circumstances have contributed to the disorganization of export credit - inasmuch as it has been impossible to standardize maturity periods on the basis of the nature of the exported good and the amount of the transaction - and to its misuse as a substitute for long-term credit in the financing of development in the relatively less advanced countries.

This problem also has other significant repercussions. In so far as efforts to diversify the exports of developing countries make progress, the latter's opportunities of placing manufactured goods on foreign markets would be seriously limited if they had to compete with products from developed countries enjoying the support of liberal suppliers' credit. The obstacles would be still more formidable, of course, in the event of the persistence of the practice of making loans from industrialized to developing countries contingent upon the purchase of goods from the country granting the credit. Unless special mechanisms existed for the financing of exports from the less developed countries, and the latter were free to use the funds obtained for imports from the markets of origin that suited them best, it is hardly conceivable that these developing countries could come to play an active part in international trade in manufactured goods.

Conclusions

From the foregoing considerations, taken in conjunction, the following conclusions can be drawn:

1. All the industrialized countries should help to finance the development of the less advanced economies, contributing resources which should at least represent a uniform proportion of their respective gross domestic products. In this context, it would be well to bear in mind the resolution of the General Assembly of the

United Nations which expresses "the hope that the annual flow of international (technical) assistance and capital ... might reach as soon as possible approximately 1 per cent of the combined national incomes of the economically advanced countries" (resolution 1711 (XVI), December 1961).

2. If such financial assistance is to attain the fullest possible measure of efficacy, it must be envisaged as a supplement to the maximum savings effort that can reasonably be made by the borrower country. The amount, terms of payment and other conditions of external financing should be established primarily in conformity with integrated development programmes.
3. The terms established for the servicing of external financing must take into account the magnitude of the commitments already assumed by the developing countries in relation to their cumulative external debt.
4. It is essential that suitable mechanisms should be instituted to compensate the developing countries for any damage that may be done to their interests in the future as a result of subsequent deteriorations in their terms of trade. Here the basic principles embodied in the United Nations' proposal concerning a Development Insurance Fund may prove useful, and with the necessary adjustments, the scheme put forward might effectively serve this fundamentally important end.
5. The compensatory credit systems inaugurated by the International Monetary Fund in February 1963 constitutes a definite step towards the solution of short-term financing problems. This undertaking would gain in strength and value by the adoption of the recommendations formulated by the Organization of American States (at the session of the IA-ECOSOC Special Committee on Basic Products, 5-9 August 1963). It would also benefit by an increased degree of automaticity in the granting of funds, as well as from reconsideration by the International Monetary Fund of the general conditions for repayment of drafts outstanding, with a view to greater flexibility in meeting the needs of developing countries affected by circumstances beyond their control.
6. Problems relating to insufficient international liquidity cannot be approached from the standpoint of the situation of the industrialized centres alone; the position of the developing countries must also be taken into consideration, and in their case, rather than transient circumstances, basic problems are involved whose solution will entail fundamental changes of direction in world trade flows.

7. The use of credit as an instrument to promote exports from the industrialized countries decisively limits the competitive capacity of exports from the relatively less developed countries. The industrialized countries should therefore adopt policies designed to standardize the application of suppliers' credit for the short and medium-term financing of exports. To this end, the countries in question should establish uniform export credit financing and insurance practices, in co-ordination with the international financing mechanisms which, by means of appropriate credit systems, can strengthen - as one agency has already begun to do - the competitive capacity of the developing countries. This will prevent the terms of payment from constituting a determinant of the direction of international trade flows, to the detriment of basic considerations of price, quality and delivery times.

Similarly, the capital exporting countries should accord their contribution to the financing of the less developed countries' investment programmes on terms that allow it to be used for the purchase of manufactured goods in developing countries, including the recipient, provided that the goods so purchased form part of the investment financed and that provision is made to ensure strict observance of the basic principles of competition as regards price, quality and delivery terms.

H. THE INSTITUTIONAL STRUCTURE OF WORLD TRADE: BASIC CONDITIONS

The new regulations and measures for the benefit of the developing countries that result from the world conference will call for a suitable institutional framework if they are to be fully effective. Such a structure is necessary for the purposes of following up the application of the regulations, carrying out studies of trade problems and prospects and making objective evaluations where disputes arise, enabling the balance of reciprocal benefits to be restored in the event of its disturbance, and constantly revising the regulations to bring them into line with future requirements. As regards the basic substance of these regulations, the necessity of modifying traditional concepts and opening up new paths has been clearly shown. Similarly, the kind of institutional mechanism that is appropriate will have to be decided upon in the light of the need for trade to contribute to the smoothly co-ordinated development of the world as a whole, not with the primary intention of safeguarding time-honoured practices or existing systems. But this decision cannot well be made without an evaluation both of existing institutions and of the requirements that future institutions will have to meet. From such an evaluation the following important points emanate:

(a) The institutional structure of the future should be the central and unfailing source of motive-power for action to deal with world trade problems, with special attention to the needs of developing countries. At the present time, the organizations concerned with the problems of world trade are so numerous that the whole aggregate of questions seems to have been broken down into a series of clusters. Undoubtedly, various aspects of world trade must be studied and tackled separately, but this does not necessitate the dissipation and duplication of effort, or repeated discussion of the same subject by different agencies, such as frequently takes place at present. Even more important is the fact that the sporadic agencies of today seem to lack the central impetus they need in order to look ahead and adapt themselves to changing requirements and arrange for a rational division of labour, nor do they ensure a uniform and broadly-conceived approach to the problem.

What is undoubtedly true is that it was precisely these shortcomings which constituted one of the mainsprings of awareness of the need to convene the United Nations Conference on Trade and Development, even among the countries that are members of many of the existing agencies. It would therefore seem essential that the Conference itself should serve as a basis for the creation of the future institutional mechanism, and this requirement is of particular importance for the developing countries.

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(b) The principal function of the new institutional structure must be to ensure, in the first place, that the decisions of the Conference are complied with, and, as regards the future, to guarantee the possibility of reaching new decisions whenever this is deemed necessary. Its basic objective, of course, will have to be the development of international trade into an essential instrument for the more equitable distribution of world income. It is true that the existing organizations have studied many of the problems with which the developing countries have been faced, and since the publication of the Haberler Report, GATT has devoted increasing attention to these questions. But more than five years have gone by since then, and the results achieved have been notably slow and unsatisfactory in relation to the urgency of the problems concerned. Too much time has been spent on mere analyses, instead of the establishment of definitions and the widespread adoption of specific commitments. While it is not necessarily the international organizations that are chiefly responsible for this state of affairs, but the Governments themselves, whose consent is necessary for any progressive measure, the dogmatic nature of certain regulations (such as the most-favoured-nation clause) which are applied indiscriminately to countries in widely differing situations, and the minimal representation of the developing regions (for example, in GATT) have probably added to the difficulties of exploring new avenues.

The United Nations Conference, then, affords an opportunity to do away with some of these drawbacks and reconsider rules and regulations in the light of the needs of the forthcoming decade. The problem of world trade in particular must in future be considered as an integral part of development and financing problems as a whole. Once the content of the regulations and measures adopted to this end has been clarified, it will be possible to determine what form should be taken by the new institutional structure required for the implementation of the decisions adopted as regards the substantive aspects of the regulations.

(c) The institutional mechanism of the future must ensure the effective observance and application of the rules and measures established. Experience shows that the regulations applicable are not strictly observed, and a certain tendency to present faits accomplis has not been altogether lacking. Although GATT contains a provision (article XXIII) under the terms of which the balance of benefits can be restored if any benefit accruing to a Contracting Party is nullified or impaired, it has seldom been invoked, partly because the procedures established are so awkward and toilsome as to constitute yet another discouraging factor. Moreover, the need to secure a decision by the organization in plenary might mean that political considerations linked to mere voting power carried weight in a matter that should be settled on the basis of strictly legal and economic criteria.

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If in the future the international organization is to retain the confidence of its members, the institutional mechanism must be consonant with its needs and requirements. Consequently, this mechanism must be strong and efficacious. Otherwise, it could not impose its authority on increasingly powerful regional groupings which tend to justify their non-observance of world trade rules on political grounds. The stronger the organization, the more effectively it will be able to discourage infractions. An advisable move, therefore, would be to buttress the procedure for re-establishing full application of the regulations, when breaches have occurred. To this end, a standing committee composed of independent personalities might usefully be set up for purposes of investigation and arbitration, so that it could take direct cognizance of complaints relating to infractions, without the plaintiff's having first to resort to the organization in plenary. To strengthen the preventive effects of this subsidiary body, some thought might also be given to the possibility of submitting other countries' measures to its consideration, even if they had not yet come into force or done any damage. The country submitting the complaint should be entitled to adopt counter-measures unilaterally if, within a reasonable space of time (four months, for example) after the presentation of its appeal to the appropriate agency, the latter had taken no decision in any direction. The injured party should likewise be free to apply unilateral counter-measures if, within the same period, the other party did not comply with the recommendations made to it. Such measures should not be applicable on the basis of the most-favoured-nation clause, but should be directed solely against the country infringing the regulation. They would continue in force until the agency had issued its verdict on the existence of the infraction and on the appropriateness of the counter-measures in question. Thus the party submitting the complaint would not find its hands tied in face of faits accomplis. Lastly, it should be made clear that counter-measures could be adopted not only by the country whose interests had suffered, but also by countries which the infraction did not directly affect. In view of the inequality between the major countries and regional groupings on the one hand, and many of the smaller countries of the world on the other, individual self-defence is frequently ineffectual. The establishment of the right of collective self-defence in trade matters, on the same lines as are laid down in Article 51 of the Charter of the United Nations, might provide countries whose bargaining power was limited with a means of inducing the stronger nations to keep the rules.

(d) The institutional structure of the future must be universal in its scope. At the present time, for example, many of the developing countries and most of the centrally-planned economies are not contracting parties of GATT. World trade constitutes a single whole; trade between different categories of countries or in respect of certain products can be analysed separately, but measures adopted in one direction inevitably affect trade with other groups. Consequently, the United Nations Conference must lay the foundations for this universality. If regulations designed to promote the trade of the developing countries could be adopted by common accord, and if it were possible to establish commitments of equivalent effect for trade with the centrally-planned economies, the logical result

/should be

should be a universal institutional structure, incorporating countries at different stages of economic development and with different economic systems. But universality should not consist merely in the setting-up of a forum for discussion; on the contrary, it should be based on a series of specific regulations whose significance would link up all the members of the world trade community.

1. The future institutional structure

Thus to make these objectives and rules effective, an adequate institutional organization is essential. From a number of standpoints the framework of the United Nations itself would provide a suitable basis for a body of this kind. The universality of membership lacking in GATT is a feature of the United Nations, as demonstrated by the fact that Members both of the Organization itself and of the specialized agencies will be taking part in the Conference on an equal footing. The United Nations has always placed the main emphasis on economic development problems, and international trade problems have always been analysed, both in the secretariat and in the regional economic commissions, in relation to the more general problems of economic development as a whole. A new organization within the framework of the United Nations could itself give effect to the resolutions and ideas adopted by the Conference, and ensure that they were given due priority. Furthermore, a new institution could be organized on a rational and up-to-date lines, which would be more difficult if an existing structure were remodelled. It is true that the United Nations' first attempt to set up a world trade organization of this kind, under the Havana Charter, was a failure. Yet fifteen years later, the problem of world trade not only remains unsolved, but has become far more pressing, because of the constant deterioration in the situation of the developing countries. Hence, the United Nations is once again confronted by the same problem.

A new organization of this type could take over both the rules of GATT, and its secretariat, with its valuable accumulation of experience, subject to approval by the Contracting Parties. There would also have to be agreement with other United Nations organizations, such as FAO, the International Monetary Fund and the World Bank, on a rational division of labour.

It has been suggested as an alternative that GATT itself could constitute the new organization, by improving its rules and procedures in line with present-day needs. Such a solution seems neither simple, nor necessarily advisable, in view of the far-reaching changes that would have to be introduced in its membership, structure, rules and procedures. Of the 113 States Members of the United Nations, only fifty-eight are Contracting Parties to GATT, while a further fifteen countries are subject to special terms giving them the right to speak but not to vote. Moreover, the changes required in world trade must, if they are to contribute effectively to the developing countries' economic growth, be based on positive rules. They can hardly be introduced as mere exceptions to such generally applicable rules as the most-favoured-nation clause. If the problem is approached only in terms of

/new exceptions,

new exceptions, it is not to be expected that the necessary institutional framework will emerge based on positive rules whose application is to achieve all the objectives sought. In all probability, too, the new exceptions to the general rules could be put into effect by a Contracting Party only if each and all of them had previously deposited the instrument of ratification for the amendment in question. To accomplish this might prove no less difficult than concluding and applying a new international agreement, whose rules would permit recourse to positive measures of international co-operation in relation to the developing countries' foreign trade problems.

2. Agencies equipped to take immediate action

To put into practice the solution proposed above would necessarily take some time. In view of the developing countries' pressing needs, agencies equipped to take immediate action should be established at the Conference itself. Such bodies should as far as possible meet the few basic requirements set out above. Full use should be made of the existing organizations, through full co-ordination of their efforts. The immediate action system could group together several main institutions, with the United Nations Conference on Trade and Development, which would meet again within one or two years, as the central component. Meanwhile, the preparatory work for establishing a permanent trade organization could proceed, and appropriate steps could be taken at once to give impetus to its main activities. Similarly, studies could continue on problems relating to the developing countries' foreign trade deficit, and a start could be made on formulating an international trade policy aimed at achieving at least the minimum growth rate proposed by the United Nations.

To ensure a continuing impetus, the Conference would have a standing committee and an independent specialized secretariat, with its own budget within the framework of the United Nations. The secretariat would consist of a small but highly qualified group which would work closely with the United Nations regional economic commissions. The latter could deal first with the problems at the regional level thus helping to build up first-hand knowledge of the problems of each region thereby ensuring that the work is always related to development needs.

On the basis of a decision by the Conference, and acting under its auspices, four other basic agencies would operate, as follows:

(a) A special committee would promptly transform any decisions and new principles arrived at by the Conference into a special agreement between the developed and developing countries, which would constitute the future code of regulations applicable to trade relations between the two groups of countries. For countries which are also Contracting Parties to GATT, this agreement would supplement the existing rules and would replace them where necessary. The committee would further assume certain responsibilities in the application and negotiation of commodity agreements on items of particular concern to the developing countries. In this connexion, it would see that the institutions administering commodity agreements duly applied the principles approved by the Conference.

/(b) A

(b) A special committee, open to all countries wishing to participate, would concern itself with the relations between the countries with centrally planned economies and the market economy countries. One of its first tasks would be to set up machinery to promote greater fluidity in and expansion of trade between the developing countries and the state-trading countries. Moreover, with a view to the future establishment of a world trade organization, the committee could, in the light of experience, work out rules applicable to countries with centrally planned economies that would have an effect equivalent to those applied to the market economy countries.

(c) A special committee would devote its efforts to strengthening the links between the developing countries as a whole, particularly those of different continents. In the first place, it would study ways of increasing trade between the different developing continents, mainly by suggesting specific formulas for establishing a properly organized system of substantial preferences between the developing countries. On the other hand, it would seek to establish the basis for ensuring a common defence of the developing countries' interests, especially in relation to commodity agreements. Although the developing countries already have, in the regional economic commissions, instruments to promote mutual co-operation on a regional scale, they also need an institution that will strengthen the solidarity between different continents and will keep alive the awareness of their common interests. A committee of this nature is all the more a practical necessity as the practical links between the developing countries are weaker and at the same time their common needs are all the more urgent. The United Nations regional economic commissions in Asia, Africa and Latin America would help in the task of this committee, organizing the necessary inter-secretarial and inter-governmental contacts.

(d) GATT would continue to be the negotiating body between its Contracting Parties, on the basis of its existing rules and within its present sphere of authority. It would seek, in particular, to put into practice measures designed to eliminate preferences, restrictions and, in general, situations adversely affecting world trade and development, in accordance with the Conference resolutions and recommendations, without prejudice, however, to its autonomy.

In conclusion, it should be stressed that while these bodies envisaged as providing a temporary solution can do useful groundwork for the subsequent establishment of a universal organization, they can in no way take its place. Everything depends on the extent to which the participants in the Conference are prepared to accept the rules that are essential for trade between countries at varying stages of development and with different economic systems. It would therefore appear that at the forthcoming Conference attention should be concentrated mainly on the essence of the rules and measures needed, and only as a consequence of these, on the institutional framework in which they will be incorporated.

/Conclusions

Conclusions

The foregoing considerations form the basis, in brief, of the following conclusions:

1. A specialized international organization must be set up within the framework of the United Nations to deal with all international trade problems in relation to development needs. This organization should have universality of membership, should enforce new rules and measures and should constantly provide the main impetus to all trade activities within the context of economic development.
2. Until such time as the instruments for setting up a permanent organization of this kind have been perfected, it is essential to establish immediate-action bodies with, as their central organ, the United Nations Conference on Trade and Development, which would meet again within one or two years. This Conference would have a standing committee and an independent specialized secretariat with a budget of its own, which would work in close co-operation with the United Nations regional economic commissions. They would also further the groundwork for a future trade organization, while in the meantime formulating a trade policy that would make it possible to achieve and maintain at least the minimum growth rate set by the United Nations. Four essential bodies would operate under the auspices of the Conference:
 - (a) A committee to take care of the relationships between the developed and developing countries, which would speedily transform Conference decisions and recommendations into a special agreement that would govern the trade relations between these two groups of countries;
 - (b) A special committee in charge of the relationships between the countries with centrally-planned economies and the market economy countries;
 - (c) A special committee which would operate in close association with the United Nations regional economic commissions to strengthen the links and solidarity between the developing countries as a whole, particularly those of different continents; and
 - (d) GATT, as a negotiating body between its present Contracting Parties, to promote world trade within its existing sphere of competence, in the light of the general guide-lines emerging from the Conference.

METHODOLOGICAL ANNEX^{a/}

1. Classification of countries

In tables 2 to 5, 9, 10, 21 and 22, and figure I, countries have been classified, on the basis of the economic criteria adopted by the United Nations into the three following groups:

- (a) Developed areas: United States, Canada, all the western European countries, Yugoslavia, Japan, South Africa, Australia and New Zealand;
- (b) Countries with centrally planned economies: the Soviet Union, the countries of eastern Europe (except Yugoslavia), mainland China, North Korea, Mongolia and North Viet-Nam; and
- (c) Developing areas: all the remaining areas and countries in the world (including the whole of Latin America).

Tables 6 and 11 to 17 are based on statistical data contained in GATT's annual reports on international trade. GATT has classified all countries in three broad groups: industrial areas, non-industrial areas and countries with centrally planned economies. This classification differs from that of the United Nations only in that GATT includes South Africa, Australia and New Zealand among the non-industrial areas, whereas the United Nations classification places them among the developed areas. For the sake of convenience in compiling the statistics, Finland, Greece, Iceland, Ireland, Spain, Turkey and Yugoslavia have been included in the developed and industrial areas, respectively, in the two classifications.

2. Classification of products

Tables 6 and 11 to 17 have been taken from GATT, International Trade 1961 (Geneva, 1962). The composition of the product groupings is as follows:

Foods and raw materials:

- (a) Foods, beverages, tobacco, etc. (sections 0 and 1 of the revised SITC), in the form of preparations and otherwise;
- (b) Raw materials (sections 2 and 4 of the revised SITC, except division 28), including hides and skins; oil-seeds; rubber; wood, lumber and cork; pulp and waste paper; textile fibres (not manufactured); crude fertilizers, and other animal and vegetable materials;
- (c) Metalliferous ores and metal scrap (division 28 of the revised SITC);
- (d) Fuels (section 3 of the revised SITC), including solid and liquid fuels, crude or refined; gas; and electric energy.

a/ This annex relates only to chapter I of the present document.

Manufactured products:

Manufactured products:

- (a) Capital goods (section 7 of the revised SITC, excluding item 732.1, passenger motor cars);
- (b) Base metals (divisions 67 and 68 of the revised SITC); this covers iron and steel and non-ferrous metals);
- (c) Consumer goods (divisions 65 and 84 and item 732.1 of the revised SITC). This includes textile yarn, fabrics, made-up articles and related products; clothing; and passenger motor cars;
- (d) Other products (sections 5, 6 and 8 of the revised SITC, excluding divisions 65, 67, 68 and 84). This covers all manufactured goods not classified in the preceding groups.

Residue:

(Section 9 of the revised SITC.) This covers commodities and transactions not classified according to kind.

The above classification has been used in the text, and the term "primary commodity" designates the items included under "foods and raw materials", despite the fact that some of them (foods, wood, fuels, etc.) undergo a certain degree of industrial processing.

3. Projection of imports and of the potential deficit

(a) Economic development prospects under existing internal and external conditions

Table 38 summarizes the results of a system of projections, on available resources and their internal and external use, for Latin America (excluding Cuba) for 1966 and 1970.

The gross domestic product and imports were projected by extrapolating into the sixties the respective growth rates during the post-war period, namely 4.7 and 3.9 per cent. On the same basis exports were projected in accordance with an annual cumulative growth rate of 2.7 per cent, which is slightly higher than that given by the detailed analysis of Latin American exports made in section A of chapter III.

The projected gross product and imports cover all resources available, and in table 38 these are classified by destination (for exports and for internal use in consumption and investment).

The figures in table 39 indicate the potential deficit in external payments that would result from this hypothesis of the growth structure.

The first stage was to estimate current foreign exchange liabilities for imports of goods and services and for profits and interest on foreign investment loans. Comparison of these liabilities with earnings from exports of goods and services gives a preliminary estimate of the potential deficit on current account.

/The next

The next stage is to estimate the amortization payments for the relevant years in the sixties, for short-term and long-term debts outstanding against the Latin American countries. If these amortization payments are added to the potential deficit on current account, an estimate of the potential deficit is obtained that will represent the total capital inflows required to meet the deficit.

In these projections no account is taken of profits, interest and amortization payments on new direct investment or on any additional debt that may be incurred as a result of the deficit indicated.

The profits and interest on foreign investment and loans was estimated, firstly, on the basis of the profit margin recorded in the various countries during the last years of the fifties for foreign direct investment, and secondly, by using the calculations of the servicing of external debt outstanding made by the countries themselves. In a few cases the estimate had to be based on the debt existing at the end of 1962 and on an assessment of its terms and conditions.

The basic data needed for estimating external payments for financing servicing is incomplete and defective. Nevertheless the total estimated figures appear to be a reasonable approximation that indicates the order of magnitude of these liabilities.

(b) Projection of imports and potential deficit on the assumption that the growth rate of the product is increased and that the demand-for-imports pattern remains as it was during the fifties

Table 42 gives another group of projections of imports and of the potential deficit. Here the target growth rate for the gross product is an annual cumulative rate of 5 per cent for 1961-65 and 6 per cent for 1965-70 for Latin America as a whole, excluding Cuba.

The technical analysis aims at determining what will be the potential deficit or gap in the balance of payments in accordance with various hypotheses of import requirements in conjunction with these projections of the product. Exports of goods and services, profits and interest on foreign investment and loans, and amortization of existing debt, were projected by the method outlined in the preceding paragraph. Consequently it will suffice here to describe the methods used for the alternative projections of imports.

The annual imports for each country for 1948-61, expressed in dollars at 1960 prices, were grouped under the following headings: (a) durable consumer goods; (b) non-durable consumer goods; (c) fuels; (d) raw materials and intermediate products; (e) building materials, and (f) capital goods.

An analysis by countries was made to determine the ratios of imports of each of these groups of goods to the product, consumption and investment. A regressive logarithmic equation was calculated for each of the following pairs of variables, expressed in per capita terms:

/(a) Imports

- (a) Imports of non-durable consumer goods in relation to the gross domestic product or to private consumption, the equation selected for the projections being that which gave the highest correlation coefficient;
- (b) Imports of fuels in relation to the gross domestic product;
- (c) Imports of raw materials and intermediate products in relation to the gross domestic product;
- (d) Imports of capital goods in relation to gross fixed investment;
- (e) Private consumption in relation to gross domestic income.

The results of this study are shown in table 41, which gives the elasticity and correlation coefficients for the equations obtained for each country and for each group established.

This table shows that in many cases the correlation is not significant, the coefficient being very low. This is because the imports recorded are affected by a number of economic and administrative factors, and the data concerned are defective.

Internal consumption and investment were projected on the basis of the hypothesis of the growth of the product. In estimating investment use was made of the product capital coefficients implicit or explicit in the development plans of the Latin American countries. Where no plans exist, the coefficients adopted were those established in earlier ECLA studies, or else those for countries with similar economic characteristics were used.

In this way the independent variables were established, for 1966 and 1970, against which import ratios could be worked out, according to the method already described.

In those countries and for those products for which the correlation coefficient obtained was very low, the projection of imports was based on the proportion of the import content for the corresponding items recorded for those countries in the last years of the fifties. This was done, for example, in the analysis by countries, for Argentina and Chile, and also, in some cases, for durable consumer goods and fuels in the analysis by groups of imports.

Once imports were calculated and the other variables referred to were established, it was possible to arrive at the potential deficit in the balance of payments on current account, as shown in table 42.

(c) Projection of imports and potential deficit on the hypothesis of an expansion in the substitution process

In order to establish a point of reference for determining the changes that the potential deficit may undergo, two other calculations were made on imports which in fact involve assuming an expansion in the import substitution process that has been taking place.

/Calculation A

Calculation A consists basically in assuming that the countries that reduced their import coefficient after 1948 will continue to restrict imports in the sixties, on the same relative scale, and that both the countries in which there was an increase in this coefficient, and those where it remained stable, would maintain a coefficient in the sixties close to the average for 1959-61. Once the coefficients for 1966 and 1970 had been established on this basis, total imports were calculated by applying the coefficients to the absolute levels of gross product projected for those two years.

Calculation B, which is illustrated in figure V, represents only an assessment for the purpose of supplementing calculation A. A function was calculated, linking total imports with the gross domestic product of each of the countries considered, on the somewhat extreme assumption that imports are a function of the economic level of a country as measured by its gross domestic product. The result given by this function was $M = 0.529 P^{0.823}$, where M represents total imports and P is the gross domestic product. Thus total imports for 1966 and 1970 were estimated by introducing into this equation the values for the projected gross product for each country.

