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MEETING ON THE PROBLEMS OF REGIONAL  
INTEGRATION OF THE ECONOMICALLY RELATIVELY  
LESS DEVELOPED COUNTRIES

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THE ECONOMICALLY RELATIVELY LESS DEVELOPED COUNTRIES  
AND LATIN AMERICAN INTEGRATION:  
APPROACHES AND PROPOSALS



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## I. INTEGRATION POLICY IN THE ECONOMICALLY RELATIVELY LESS DEVELOPED COUNTRIES

### The common interest and an equal share in the benefits of integration

1. The vital importance of giving special treatment to the relatively less developed countries in Latin America as part of the process of economic integration has been the subject-matter of numerous regional agreements. Such treatment is justified as a measure of equity and as a way of promoting the common interest of all the Latin American countries. Its claim to equity is based on the differences in the structure and level of development of those countries. Some of them are unable to provide investment incentives comparable to those offered in the more advanced economies of the region because they have a narrow and relatively undiversified industrial base, limited possibilities of mobilizing capital, low external economies, and are beset by the other difficulties that so often accompany a low stage of economic development, not to speak of relatively small markets. Consequently, they run the risk of receiving a disproportionately small share of the benefits of regional integration, if the distribution and location of regional economic activities is determined on the basis of a single set of criteria or the interplay of market forces. It is further argued that the whole integration movement will inevitably be slowed down unless each country is assured of an adequate share in its benefits, and that any check in its progress would also affect the countries that are better equipped to exploit the opportunities afforded by a broader market.

2. Unless steps are taken to remedy the initial disadvantages of the less advanced countries, the more developed economies of the region will be in a better position to make good use of these opportunities. According to the criteria for the equitable distribution of benefits which are gaining acceptance, it is not enough for integration to widen the economic horizon of the less developed countries; it must also enable them to grow at a faster rate than the more advanced countries, since only then can the development gap between the two groups be bridged.

3. That

3. That objective is not only intrinsically important; it indicates the kind of preferential treatment that should be given to the relatively less developed countries. If the aim is to bring them progressively closer to the level of development achieved by the more advanced countries, the preferential treatment should be granted for a limited time only. Otherwise, it would fall short of its purpose and lead to a demand for permanent preferences which, if once established, would make it difficult in practice to create a genuine common market.

Nature of the problem and types of preferential treatment required

4. The capacity of the Latin American countries to derive equal benefits from integration is conditioned largely by two different problems. On the one hand, the economic structure of the relatively less developed countries characteristically shows an incipient industrial sector, a weak infrastructure, few prospects of mobilizing domestic capital, limited management capacity and a shortage of skilled labour. On the other hand, the low level of development goes hand in hand with a small domestic market, limited not only by the concentration of income and low income levels but also by the size of the population.

5. The first problem can only be overcome by various internal and external measures. The chief external remedies are financial and technical co-operation designed to strengthen the capacity of the less developed countries to broaden and diversify their economies, that is, measures which strike at the roots of their development problems and prepare them to take active part in the integration process. The second problem can only be overcome if integration provides ample and timely opportunities for these countries to enter the regional market and forces them to open up their national or sub-regional markets to the more advanced Latin American countries. Accordingly, the measures to be taken are primarily trade policy measures: they include the opening of markets, regulation of incentives and harmonization of reciprocal and foreign trade policies.

6. The need to strengthen the economies of the relatively less developed countries in order to prepare them for integration is manifested, regionally and internationally, in the demand for special treatment as regards both the volume and terms of external financial aid. In order to meet this demand,

/the international

the international and regional organizations, the integration agencies, the industrialized nations and the more developed countries of Latin America should pool their efforts to provide satisfactory technical assistance. Such assistance should be given particularly in studies on the identification of industries and surveys of natural resources; the preparation and implementation of industrial and infrastructure projects; the establishment, organization and modernization of enterprises; marketing, market research and export promotion; and management and manpower training. Sectoral agreements, border development programmes; multinational infrastructure and river basin development projects, and the organization of multinational enterprises are some of the other forms of direct action that could be highly effective and therefore require the efficient implementation machinery.

7. Trade policy measures should have two main aims: to give the less developed countries a quick and easier access to other markets, and to enable them to remove customs duties and other restrictions and fix margins of preference on more favourable terms and for a longer period than those established for the countries. The harmonization of general fiscal and economic policies should have the same objectives: any regional agreement in this field should establish differential treatment that favours the economically relatively less developed countries and supplements the other measures taken to encourage the location of economic activities in the territory of those countries.

Integration, external co-operation and internal effort

8. The various instruments and measures for implementing integration policy in relation to the less developed countries, must be co-ordinated and applied concurrently; as isolated measures, they may prove inoperative or ineffectual. Moreover, they would not be sufficiently effective unless they were accompanied or supplemented by internal measures in such fields as the promotion of exports, fiscal and monetary policy, and the removal of structural obstacles to economic development.

9. Thus, the opportunities opened up by the integration process, and the preferences granted in respect of trade and external co-operation, must be properly related to the internal development effort. Those preferences

/and opportunities

and opportunities may be vitally important instruments for the relatively less developed countries, but can only supplement the essential requisites for speeding up the rate of economic expansion: marshalling of domestic resources, and an effective national development policy.

Integration opportunities and Latin American capital

10. This internal effort must also provide a guarantee that the opportunities gradually opened up by the integration process will be turned to good account on behalf of the development of Latin America in general and its less advanced countries in particular.

Undeniably, the opposition and misgivings that are often aroused by proposals for granting preferential concessions to the less developed countries are based on the fear that such preferences may be exploited mainly by foreign capital seeking a foothold in the regional market. In the absence of a clear-cut policy on this subject, the more advanced Latin American countries might suffer by being exposed to competition that thrived on the preferential terms established. Moreover, there might be instances in which the effect of foreign investment would be to form enclaves which would not appreciably benefit the relatively less developed countries.

11. Obviously, foreign capital can make valuable contributions to the acceleration of development and the attainment of integration objectives. But it is essential to formulate a well-defined regional policy designed to harmonize investment incentives, to channel foreign capital towards those fields in which it would be most useful because of the technological level and complexity of the activities concerned; and to ensure that Latin American capital contributed a fair share.

12. In the light of these and other aspects of integration policy, suitable guiding principles should also be laid down for the financial participation of other Latin American countries in activities undertaken by the less developed countries with a view to supplying the regional market.

In this connexion, the establishment of multinational enterprises may prove to be a particularly useful instrument. Such joint initiatives also afford a fruitful field for the operation of regional and sub-regional financing machinery. Lastly, direct arrangements can be made for the joint

/participation of

participation of public and private capital from two or more countries in specific integration activities which are of particular importance for relatively less developed countries.

13. All these measures may gradually create much more favourable conditions for eliminating one of the structural causes of the problem: the inability of the relatively less developed countries to mobilize enough investment resources to strengthen their internal development and enable them to participate actively in the integration process. Having laid the foundation by fuller utilization of their own resources, they would then be given preference in respect of external public financing, joint participation in integration activities with capital from other Latin American countries and foreign investment. Foreign investments would be subject to uniform regulations designed to prevent competition among the recipients in offering incentives to attract them and to ensure that they would supplement, not supersede, Latin American capital.

Importance of national and regional infrastructure

14. A considerable proportion of those resources would obviously have to be used for improving and expanding the infrastructure on which national development and regional integration must rest.

15. The lack of adequate transport facilities is one of the most formidable obstacles which must be overcome in order to guarantee the relatively less developed countries a fair share in the development opportunities created by regional economic integration.

In determining top-priority programmes, no hard-and-fast distinction should be made between international transport networks and the national systems of the less developed countries, since the latter cannot use international facilities efficiently unless they improve and expand internal transport facilities.

16. Transport is a very promising field for preferential action in favour of the relatively less developed countries on the part of such established agencies as the IDB Pre-Investment Fund for Latin American Integration, the United Nations Development Programme (including the

Special Fund Component) and the co-operation and technical assistance programmes of other regional and international agencies.

17. No less important are other factors related to infrastructure, such as the more efficient utilization of water resources. For the less developed countries, technical and financial co-operation in research on their natural resources is particularly vital because the knowledge thus obtained will help to identify programmes for better-balanced and more dynamic regional development.

18. One of the most effective fields for multinational action would be the development of international river basins, since they cover considerably more than half the territory of the region. The existing international and regional agencies, or others specially established for the purpose, might make a significant contribution to the evaluation of water resources projects and the distribution of joint investments and costs. In such arrangements, consideration should be given to the possibility of according preferential treatment to the relatively less developed countries.

#### Competition and complementarity in agricultural development

19. The economies of nearly all the relatively less developed countries are heavily dependent upon agricultural activities and exports. The weight given to agricultural activities in the integration process is therefore of fundamental importance to these countries. Yet, it is one of the issues which has been given least attention so far.

The role of agriculture in the integration process has probably been relatively underestimated because of the prevailing idea that there are few complementarity and trade possibilities in agriculture and that every country should strive for self-sufficiency. However, a deeper study of the question, particularly against the background of historical trends, might well uncover significant opportunities for certain products and regions, provided the necessary measures and commitments are undertaken for realizing them.

20. The prospects of complementarity between the economically relatively less developed countries themselves are reduced - except to some extent in Bolivia and Trinidad and Tobago - by the general similarity of their agricultural production and trade. For geographical and ecological reasons, nearly all of them have the same crops, as reflected in their very similar export trade. This is true of such commodities as sugar, bananas and coffee, where the possibility of a co-ordinated policy seems to be limited to joint action to improve conditions for participating in foreign markets, in which this group of countries carries considerable weight. On the other hand, some of these countries are at present net exporters or net importers of rice, beans, maize, rubber, meat, vegetable fats, tobacco, etc. The fact that the net importers might have sufficient resources of their own to become self-sufficient does not, a priori, rule out the possibility of making better use of soil, climate and other conditions through co-ordinated agricultural development and an increasing volume of reciprocal trade in commodities of this kind.

21. A similar comment might be made regarding the possibilities of trade between the economically relatively less developed countries and the rest of the region. Suffice it to remember that agricultural, livestock, forestry and fishery imports by the ALALC countries - excluding Bolivia and Venezuela - amounted to over 550 million dollars in 1964. Without counting wheat imports (mostly under the United States Public Law 480), there remain nearly 370 million dollars for a wide range of products many of which could be produced in the region, with a substantial proportion coming from the relatively less developed countries.

For purposes of argument on behalf of the latter, it might be useful to explore the possibilities offered by areas which might be regarded as "natural markets" of particular groups of relatively less developed countries. For example, both the Caribbean area and Venezuela are net importers of cotton, oil-seeds and meat from Central America. The Caribbean countries could export tobacco to Central America, Mexico and Venezuela. Of the Andean countries, Ecuador has found markets in Chile, Peru and Venezuela, which are net importers of many of its products, while Bolivia could increase its meat exports to Chile and Peru and its rubber exports to the rest of that sub-region.

22. The problem is not merely one of substituting for agricultural imports from outside the region, but principally of substituting for those created by the future growth of regional demand. Projections of apparent consumption of agricultural commodities in 1975 and 1985 show that full use must be made of natural, human and technical resources to meet that future demand. They justify action to co-ordinate agricultural policy at a regional level to that end by making the most of the relative advantages of each country and its ecological conditions.

23. The question requires far more detailed studies than the very general surveys completed to date, and instruments must be devised or adapted to cope with its complex aspects. The first step would probably be to conclude agreements on specific products rather than to undertake general commitments; more emphasis should perhaps be placed on ways of meeting the future growth of consumption than on present sources of supply; the geographical areas considered would not necessarily coincide exactly with national territories, but would also - or preferably - be more limited areas with particular supply conditions or difficulties; and the action to be taken would have to be co-ordinated with measures relating to capital and other inputs (machinery and equipment, fertilizers, etc.) for an expansion of agriculture based on increased productivity and efficiency.

Industrial integration: immediate possibilities and long-term policy

24. The charting of an integration policy in relation to the economically relatively less developed countries is particularly important in industrial development. They are at the greatest initial disadvantage in that field and the new prospects of industrial development opened up by integration would do most to promote a more rapid and sustained economic growth. In this field, the specific instruments and measures should reconcile short-term needs of activities that might materialize immediately or in the near future, with the long-term needs connected with the type of industrial structure which would gradually take shape in the economically relatively less developed countries as the outcome of integration.

25. The following important industries might provide the economically relatively less developed countries with an immediate stimulus to produce for the regional market: food products, wood and leather manufactures, textiles and some chemical and pharmaceutical products.

There are a number of factors which represent or might come to represent relative advantages for the less developed countries in a regional market for such products. Generally speaking, they have low capital and technological absorption; economies of scale, which to a certain extent are important, do not necessarily entail large-scale production; they depend heavily upon natural resources, which are plentiful in several of the less developed countries of the region; they are labour-intensive, and wages and salaries represent a fairly high proportion of production costs.

26. A number of projects already under way have demonstrated the feasibility of achieving positive results in a fairly short time, provided that there is access to regional markets. They have also demonstrated that the volume of trade they are capable of generating can represent a sizable proportion of the total exports of the relatively less developed country concerned.

The indirect effect of these projects should also be borne in mind, for they provide a valuable fund of experience as regards the organization of domestic production with an eye to the regional market and the establishment and organization of suitable marketing channels. Moreover, these first efforts suggest that, from the domestic standpoint, the greatest difficulties arise not in connexion with the promotion of the project itself but in connexion with the measures needed to ensure a regular supply of raw materials and to build the industrial infrastructure needed to provide other intermediate goods and services (containers, machine repair services, power supply, etc.).

27. Despite the importance of these traditional activities, they should not be the only lines envisaged for the industrial development of the economically relatively less developed countries in an integrated Latin America. If they were, integration might reproduce within Latin America a division of labour like the international pattern based

on the relationship between the industrialized and the developing countries. It would then be impossible to achieve a suitable balance in reciprocal trade flows and the relatively less developed countries could not aspire to an equitable share of the benefits of integration.

28. This means that the promotion of viable short-term projects must go hand in hand with measures offering the less developed countries an increasing opportunity to participate in more complex industrial fields relating to manufactures, for which demand is more dynamic. This is important not only from the standpoint of a balanced and equitable trade structure, but also because it is essential that integration should provide the relatively less developed countries with an opportunity to establish and expand industries capable of generating self-sustaining economic growth and to create centres of future development with built-in growth potential.

29. In addition to general trade policy measures, sectoral agreements would further this objective provided that they give due consideration to the long-term interests of the economically relatively less developed countries. More specific criteria should be laid down for selecting industries to be established in those countries on a priority basis in order to attain the objectives proposed.

The share of the relatively less developed countries in the Latin American economy as a whole

30. The relative size of the economies of the less developed countries compared with those of the remaining Latin American countries makes it easier to apply truly effective measures on their behalf. Their share of total income, industrial production and trade in Latin America is very small. Consequently, a given absolute volume of income or trade may, in relation to the different domestic economies, be a very substantial gain for some and much less significant for others.

31. The same concept can be applied at the sectoral level. For example, if markets are opened for certain new industries located in the economically relatively less developed countries, even a very modest share of those markets might be a sufficiently powerful stimulus to ensure a significant advance in the process of industrial development in those countries.

/32. However,

32. However, consideration cannot be limited to the over-all effects of specific measures, since they may have a serious impact on particular industries taken in isolation. But this danger - apart from the fact that special measures could be taken to protect the industries in question - is more likely to refer to present situations than to the future. It is essential that the problem should be viewed in terms of future development, since, where there is a risk involved for a particular industry in the more advanced country, the preferential concession granted to the economically relatively less developed country can be made compatible with the interests of the more advanced country, provided that the less developed have a share in satisfying the future increase in consumption.

Common problems and different circumstances; the institutional framework

33. Obviously, the elaboration of a regional integration policy for the economically relatively less developed countries must take as its point of departure the problems which are common to all those countries. However, it must also be recognized that at the present time, circumstances within the group vary a great deal, particularly as regards their participation in integrations schemes already under way.

Three of the countries are members of the Latin American Free-Trade Association (ALALC), and one of these three also forms part of the Andean sub-regional grouping; five are already well on the way to economic complementarity and reciprocal trade with the establishment of the Central American Common Market; and the remainder are so far not participating in any integration scheme or sub-regional agreement.

On the other hand, all the more advanced countries of the region are members of ALALC.

34. As a result of this diversity of situations, although the general principles that should underly regional integration policy in relation to the economically relatively less developed countries can be established, the decisions and instruments for implementing those principles cannot be the same, nor can they be applied indiscriminately to all members of the group.

35. From a more general point of view, it follows that the practical application of this policy cannot be separated from the development of the institutional frameworks through which the integration process must operate. The main questions which arise in this respect are the extent to which LAFTA and the Central American Common Market can be merged and the procedures involved, the possibility that new forms of association between the economically relatively less developed countries might be developed, the kinds of relationships which might be established between countries which do not belong to any existing integration scheme with each of those schemes - or with particular member countries with which they have special economic or geographical affinity -, the situations which are created or might be created from the participation of the relatively less developed countries in sub-regional agreements alongside more developed countries, etc.

Measures already taken and the need for new decisions

36. In considering the position of the relatively less developed countries in relation to regional integration, it should be borne in mind that the necessary principles and instruments have already been partially embodied in various agreements and decisions. Thus, what is needed is not so much the formulation of new concepts, but the expansion or effective application of decisions that have already been taken or of ideas that have been crystallized as a result of successive negotiations.

37. Moreover, an evaluation of the results obtained so far from the concessions or preferences already granted to some of the relatively less developed countries provides a very useful basis for assessing the effectiveness of the instruments used, or for illustrating to what extent the results of this preferential treatment are contingent upon other measures which must be taken simultaneously in fields more directly related to development efforts in each country.

## II. MEASURES AND INSTRUMENTS REQUIRED

In order to implement a policy of integration in the economically relatively less developed countries, a number of measures must be taken and a series of instruments used that will encompass all aspects of the problem.

Bearing in mind the need for these measures and instruments to be welded into an organic whole and co-ordinated, the main proposals made in particular areas have been grouped together for consideration in this section under the following heads: trade policy measures; sectoral agreements; multinational projects; fiscal incentives; regional and international co-operation, financing and technical assistance; national and regional promotion machinery; and domestic decisions and measures.

The gist of the approach is outlined below. Where appropriate, the proposals made under the different heads have been classified according to whether they relate to the less developed countries in general or certain groups among them, on the basis of their participation in the existing integration schemes. Those relating to a specific sector of economic activity, whether the infrastructure, agriculture or industry, have been presented singly in some instances. Lastly, alternative proposals designed to achieve the same goals but at different rates and times are also offered in certain cases.

### A. TRADE POLICY MEASURES

#### 1. General principles

The broad aims of the trade policy measures should be:

- (i) To assure the economically relatively less developed countries of preferential and earlier access for their products to the regional market;
- (ii) To enable the economically relatively less developed countries to open their own markets to the other countries gradually and more slowly;

/(iii) To

- (iii) To grant preferential terms to the economically relatively less developed countries as part of the process of harmonizing the treatment of imports from third countries and of developing a common external tariff.

2. Access to the regional market for the economically relatively less developed countries members of ALAIC

The general principles set forth can be applied immediately to the economically relatively less developed countries members of ALAIC. There are several means of implementing them, two of which are outlined below:

- (i) To open, immediately or very shortly, the markets of the other member countries through the total and lasting elimination of duties and restrictions, including administrative and exchange ones, on all industrial goods (semi-manufactures and manufactures) and on the primary commodities that are considered to be of special interest for the economically relatively less developed countries and in which they originate. Exceptions shall be made for certain products where their total and immediate liberalization might seriously damage major activities in the countries granting the concessions. The exceptions would be negotiated between the countries concerned simultaneously with the establishment of a general system of free access, with due regard for the principle stated in ALAIC resolution 157 (VI), point 1 (b), and would consist in the establishment of free import quotas or the gradual and automatic elimination (in a relatively short time) of duties and other restrictions.
- (ii) To open, immediately or very shortly, the markets of the other member countries through the total and lasting elimination of duties and restrictions, including administrative and exchange charges, on all products yielded by activities considered to be of special interest for the economically relatively less developed countries, and accelerated tariff reduction, beginning at an early date, for all other manufactures and semi-manufactures, with a view to the elimination of all duties and restrictions within a specified period, e.g., not exceeding five years.

/In both

In both cases, special concessions would be negotiated for primary commodities not included among those of special interest for the relatively less developed countries. Such concessions would consist in the establishment of quotas, the accelerated reduction of duties and other restrictions, or the conclusion of agreements along the lines proposed, for instance, in section B.

Under either proposal, the measures envisaged in the Treaty of Montevideo, chapter VI, would be applied by the other Contracting Parties, in accordance with the criteria laid down in ALAIC resolution 173 (CM-I/III-E).

3. Access to markets for the economically relatively less developed countries not members of ALAIC

- (i) The general principles should be applied to the relatively less developed countries that are not members of ALAIC with due regard for the special relationships or associations to be established in due course in the context of the Latin American Common Market.
- (ii) Without detriment to this principle, and pending the conclusion of the relevant agreements, provision should be made for the greatest possible extension of non-reciprocal preferences in favour of the economically relatively less developed countries not members of ALAIC.
- (iii) In addition, similar principles providing for preferential treatment of the economically relatively less developed countries should be worked out in the preparation of a general economic integration treaty which will ultimately be adopted for the whole region.

4. Tariff reduction by the economically relatively less developed countries

In recognition of the need for the relatively less developed countries to participate in the process of intra-Area trade liberalization, preferential treatment in their favour should be expressed in terms of:

- (i) The provisions already adopted in ALAIC and embodied in the Declaration of American Presidents, which authorize those countries to carry out the programmes of tariff reduction or the commitments that arise from the adoption of a system of automatic tariff reduction on more favourable terms than the other Contracting Parties and according to a different time-table;

/(ii) The

- (ii) The possibility that, in accordance with the principles stated in chapter VIII of the Treaty of Montevideo, temporary measures might be taken to protect certain industries of fundamental importance to their economic development.

5. Harmonization of duties and the common external tariff

The preferential treatment accorded to the economically relatively less developed countries in relation to the harmonization of duties and eventual adoption of a common external tariff should be expressed in the following ways:

- (i) By granting the less developed countries a longer period than the others in which to harmonize their external tariffs in general or for specific products, and
- (ii) By providing that a relatively less developed country may import capital and other production goods from third countries during a given period duty-free or at a reduced rate of duty when they are intended for recognized regional industries or, more generally, for industries to be established or expanded in the less developed country. The importing country would be so authorized only when the goods were unobtainable in the region on suitably competitive terms, and provided that some form of preference or priority were maintained for the production of capital goods in the Area.

B. SECTORAL AGREEMENTS

1. General principles

Sectoral agreements may serve as a valuable instrument for the implementation of integration policy in relation to the less developed countries. In particular, they may serve the following purposes:

- (i) The establishment of various regulations and provisions - including those relating to promotion of development, opening-up of markets, terms of competition, technical assistance and financing - in a single joint agreement dealing with specific economic activities;
- (ii) The identification and execution of specific projects which are of special interest to the relatively less developed countries from the standpoint of the regional market, and
- (iii) Immediate progress in the adoption of such measures and preferential arrangements as may be necessary to carry out a minimum number of projects constituting a short-term plan of action which will assist the less developed countries, pending the implementation of more general agreements and provisions.

2. Participation of the economically relatively less developed countries members of ALALC

The difficulties hitherto encountered in connexion with the conclusion of sectoral agreements have led ALALC to undertake a further revision of the principles and procedures by which such agreements are governed. At its most recent meeting, the Council of Ministers recommended that the Standing Executive Committee, with the co-operation of the Advisory Committee on Industrial Development, should examine and approve not later than 1 July 1968, specific formulas designed to promote the conclusion of sectoral agreements with the participation of the economically relatively less developed countries members of ALALC. In this connexion, consideration might be given to the following proposals:

- (i) That the agreements should not be confined to individual products, but should preferably relate to sectors or branches of industry or to industrial complexes, so as to cover the production of the inputs required for those sectors;

/(ii) That

- (ii) That the Study Group on the Economically Relatively Less Developed Countries (resolution 106/CEP) and the Technical Operational Unit (resolution 195-CM-II/VI-E), in co-operation with the agencies giving advisory assistance to ALALC (IDB, IA-ECOSCC and ECLA), should take co-ordinated measures to carry out studies aimed at identifying productive activities which could be covered by sectoral agreements with the effective participation of the relatively less developed countries, and that they should promote the action required for the implementation of such agreements;
- (iii) That sectoral agreements should lay down criteria for the establishment of multinational enterprises in relatively less developed countries, the term being understood to cover private, public or semi-public enterprises set up by the countries of the region.

3. Participation of the economically relatively less developed countries not members of ALALC

Pending the establishment of general agreements and procedures for bringing the ALALC countries into a relationship with the relatively less developed countries not members of the Association, sectoral agreements may be a useful instrument for the promotion of integration activities into which Latin American countries can be drawn whether they are or are not participants in existing integration programmes. To that end, the following steps would have to be taken:

- (i) The Co-ordinating Committee of ALALC and the Central American Common Market, at its first meeting, should formulate procedures under which sectoral complementarity agreements could be left open for accession by all the relatively less developed countries;
- (ii) Studies undertaken with a view to the adoption of sectoral agreements should examine the situation of all the relatively less developed Latin American countries and their possibilities of becoming parties to such agreements, and
- (iii) Procedures and regulations should be adopted which would make it practicable for those countries to participate in sectoral agreements.

4. Preferential treatment for multinational enterprises under sectoral agreements

Sectoral agreements should establish machinery for promoting multinational enterprises in the relatively less developed countries, the term being understood to cover private, public or semi-public enterprises set up by the countries of the region.

5. Sectoral agreements on agricultural commodities

In view of the difficulties of liberalizing trade in agricultural commodities within a reasonable time, owing to the rigidity of the agricultural sector and other special features, consideration should be given to the possibility of concluding agreements on specific products or groups of products in the context of a regional or sub-regional market which would grant special concessions to the relatively less developed countries. These partial agreements would not preclude provisions for a general liberalization of trade in agricultural commodities to be carried out within a fixed period as the integration movement proceeds.

Such agreements might include the following objectives: substitution of regional production for imports from outside the region; complementarity arrangements between agricultural economies with different crop cycles or different structures of production; and more favourable supply conditions to meet the estimated increases in consumer demand. In addition to tariff and non-tariff preferences, the agreements might embody provisions governing the following questions:

- (i) Aggregate annual quotas which each country would allow to be imported, free of duties and other restrictions, from other Latin American countries, and allocation of a priority share in those quotas to the relatively less developed countries. The quotas might be increased each year in proportions to be specified in the agreement;
- (ii) Periods during which the liberalization régime should be operative;

/(iii) Standards

- (iii) Standards of quality, types and varieties in respect of the products covered by the agreement;
- (iv) Information procedures and media channels and procedures of trade, including the role to be played by official and semi-official marketing agencies;
- (v) Financial co-operation required for implementation of the agreements;
- (vi) Procedures for periodic comparison of production plans or programmes in the interest of co-ordination and the adoption of measures to bring them into harmony. These should include multinational or multinationally-financed projects.

C. MULTINATIONAL PROJECTS AND BORDER DEVELOPMENT PROGRAMMES

1. General considerations

The economic integration of Latin America will require an infrastructure which will enable countries to use their productive wealth more fully and to mobilize their material and human resources. Since the infrastructure of the economically relatively less developed countries is generally deficient, special action is required at the regional level to improve the position of these countries by means of multinational projects.

Border development programmes, in which economically relatively less developed countries participate side by side with other more advanced countries of the region, are extremely useful in promoting the development of depressed areas in the former and the joint rational development of the natural resources of those areas.

2. Basic studies

Different types of studies and research are necessary to prepare multinational projects and border development programmes. In many cases they would involve research not only on the participating countries, but on the over-all situation in the region. In order to pursue this research, it would be advisable:

- (i) To increase the resources of the IDB Pre-Investment Fund for purposes of broadening the studies on multinational projects and border area development involving the economically relatively less developed countries;
  - (ii) To take the necessary steps to submit to the United Nations Development Programme (UNDP) and other international agencies, programmes of research on the present and potential magnitude of specific natural resources located in the economically relatively less developed countries;
  - (iii) To establish machinery for co-ordinating the work of national agencies engaged in research on natural resources in the economically relatively less developed countries with that of international institutions operating in the same field.
- Uniformity and standardization are vitally important in studying these resources;

- (iv) On the basis of completed studies and other existing data, to identify and initiate multinational projects of special interest to those countries;
- (v) To conclude agreements with the more advanced countries of the region for the adoption of measures to accelerate the progress of some of the multinational projects already identified which are of special economic interest to the relatively less developed countries, such as joint submission of project requests to financing and technical assistance agencies;
- (vi) To establish, jointly with the other participating countries, special regional corporations or institutions to implement the multinational projects;
- (vii) To promote special agreements with other countries to secure special social services and rates for the basic services involved in border development programmes and multinational projects;
- (viii) For the other countries to give priority to studies which might culminate in multinational projects in favour of the less developed countries.

3. Multinational projects in the field of transport

In relation to the need to give preferential financial and technical assistance to transport in the economically relatively less developed countries, the following measures are proposed:

- (i) That the relatively less developed countries should firmly support the Technical Group set up by the IDB Pre-Investment Fund and the Transport and Communications Councils of ALALC and the Permanent Secretariat of the General Treaty on Central American Economic Integration (SIECA), with a view to achieving rapid progress in the transport studies;
- (ii) That no sharp distinction should be made in the economically relatively less developed countries between international and national road systems, because, with their limited resources this might slow up their development and the regional integration sought through investment in transport. At the same time, they should be assisted in improving their internal transport systems.

/(iii) The

(iii) The studies on transport should give special attention, inter alia, to the following considerations.

It would be useful to prepare a short-term regional plan for the construction or improvement of highways a high-priority need in the less developed countries, and a long-term integrated plan (technical, economic and financial) for the gradual development of a good international highway system.

The less developed countries have two kinds of maritime transport problems: they have to improve the level and structure of merchant fleets operating in regional trade and the quality, regularity and frequency of maritime transport: and they have to improve port and harbour facilities.

The international railway lines and connexions between the southernmost countries are of special interest to several relatively less developed countries and areas.

The Technical Group should prepare a programme of studies on river transport with a view to improving shipping conditions and making better use of the region's inland waterways.

In air transport, special attention should be given, from the standpoint of the less developed countries, to freight traffic, technical, operational and commercial co-operation between airlines, including the establishment of multinational associations or consortia, and the adaptation and modernization of infrastructure, including airports and air transport facilities.

/D. FISCAL

## D. FISCAL INCENTIVES

### 1. General considerations

- (i) The general process of integration requires that fiscal incentives - mainly exemptions from or reductions of taxes on personal income, enterprises or capital goods and inputs - be gradually harmonized so as to prevent competition among participating countries in granting these concessions with a view to attracting investment and activities to their own territories and away from other locations which might be economically more advisable;
- (ii) Without prejudice to that general rule, the economically relatively less developed countries should be granted easier terms, if they so wish, for complying with whatever commitments may eventually be made to achieve that harmonization so that they would temporarily be in a position to offer greater incentives.

### 2. Guiding principles for ALALC studies

Various resolutions adopted by ALALC organs provide for studies designed to prepare the ground for possible fiscal incentive harmonization agreements. In accordance with the principles outlined above, particular attention should be paid to:

- (i) the nature and mode of application of the preferential incentives which the economically relatively less developed countries might be able to offer, and the period for which they should remain in force;
- (ii) the possibility that these preferential incentives might be greater and/or of longer duration in respect of activities that might be described as of special interest to the relatively less developed countries with a view to the regional market; and
- (iii) an evaluation of the effects of those incentives on the fiscal revenue of the less developed countries, as well as any other indirect effects they might have.

### /3. Treatment

3. Treatment and régime of foreign capital

It is particularly important for the economically relatively less developed countries to accelerate the work called for by ALALC resolution 81 (III) on the compilation of data concerning the treatment and régime of foreign capital with a view to harmonization. In this respect, too, the relatively less developed countries might be allowed to grant preferential treatment in relation to the uniform rules adopted, provided that adequate safeguards are established to protect the interests of other countries participating in the integration effort.

4. Co-ordination at the regional level

In order to expedite the general process of Latin American integration, action to harmonize fiscal incentives initiated by ALALC, and all subsequent measures should take into account the position not only of the countries members of ALALC but of those members of the Central American Common Market - which subscribe to the Central American Agreement on Fiscal Incentives to Industrial Development - and of other Latin American countries which do not yet belong to either integration schemes. Accordingly, this question might also be included in the programme of work of the ALALC/CACM Co-ordinating Committee.

5. Fiscal incentives and sectoral agreements

Pending the conclusion of general agreements on the harmonization of incentives and preferential conditions for the economically relatively less developed countries, the sectoral agreements, in relation to the particular activities they cover, might lead to commitments by other countries not to promote in their own territories investment in activities of special interest to the relatively less developed countries, in compliance with the provisions of paragraph 1 (e) of ALALC resolution 157 (VI).

## E. FINANCIAL CO-OPERATION

### 1. General objectives

A special effort should be made to give preferential treatment to the economically relatively less developed countries as regards financial assistance, in order to achieve the basic objectives outlined below:

- (a) Investment in infrastructure, particularly in power, transport and communications, with a view to the economic and physical integration of these countries with the rest of Latin America;
- (b) Regional Development programmes for border areas;
- (c) Multinational projects of a specific or multipurpose nature, such as the integrated development of river basins;
- (d) Establishment of new industries, expansion and modernization of existing industries and promotion of regional or sub-regional sectoral agreements of interest to the less developed countries;
- (e) Introduction of up-to-date techniques in agriculture, forestry and fishing, and improvement of marketing facilities, with a view to promoting agricultural regional integration;
- (f) Possible restructuring of domestic industries and other activities and their adaptation to the conditions resulting from the growing liberalization of intra-regional trade;
- (g) Natural resources surveys;
- (h) Promotion of exports of manufactures to the integration area and to third countries; and
- (i) Relief of temporary deficits in intra-regional trade and financial support for regional payments systems.

### 2. The scale of financial co-operation

The fulfilment of these objectives requires not only a proper channelling of external financial assistance from traditional sources, but also an increase in the volume of funds allocated to existing and new projects. In particular, it is essential:

- (i) That IDB and the Central American Bank for Economic Integration (BCIE) should have additional resources to meet regional integration needs;

(ii) That

- (ii) That additional funds should be found to help to finance the imbalances arising in regional trade, with special treatment for the economically relatively less developed countries;
- (iii) That the resources of the IDB Pre-investment Fund should be increased, so that it can extend its activities to the financing of feasibility studies for projects of special interest to those countries;
- (iv) That practical effect should be given to the recommendations contained in ALAIC resolution 123 (V) that Alliance for Progress funds should be made available so that IDB can increase its package loans to national development institutions to help finance plant modernization and adaptation projects;
- (v) That sufficient funds should be found to provide financial assistance for purposes of: (a) increasing agricultural productivity, particularly in the backward regions, by introducing new techniques and by direct investment research and extension services, mechanization, new facilities, improved irrigation, etc.; (b) studying alternative soil uses and preparing and executing the necessary soil projects; and (c) absorbing displaced labour in other occupations, when there is no economic possibility of putting the land to other productive uses.

3. Machinery and procedures for financial co-operation

It is essential not only to ensure a sufficient volume of external financial aid, but to adapt the procedures and machinery for obtaining that assistance to the situations in the economically relatively less developed countries. The following aspects, inter alia, should be noted:

- (i) The need for machinery to promote the flow of capital in the integration area, so that domestic capital, capital from the more advanced Latin American countries and foreign capital can contribute to the development of projects of regional interest, with capital from the relatively less developed countries contributing a fair share;
- (ii) The need for suitable financing systems for supplies originating in the integration area;

/(iii) The

- (iii) The strengthening of procedures for increasing the amount of credit granted to regional enterprises in the economically relatively less developed countries by means of long or medium-term loans at low interest rates, granted either directly by the regional financing agency or through national financial or development institutions which receive funds from the regional agency;
- (iv) The improvement of systems of vouchers or guarantees for loans to enterprises from national, regional or sub-regional private credit sources;
- (v) Contributions to national development institutions in the economically relatively less developed countries so that they can grant subsidies, non-reimbursable in certain cases, to activities whose development is of particular interest.

4. Some immediate action to be taken

To a certain extent the considerations outlined constitute a far-reaching financing programme. Until that programme is in full operation, however, a number of immediate measures should be adopted on behalf of the economically relatively less developed countries, including:

- (i) Priority in external financing to the technical and trade feasibility studies needed for the establishment of regional industries in the economically relatively less developed countries;
- (ii) Preferential treatment by regional and sub-regional financial agencies for the financing of multinational enterprises to be established in the economically relatively less developed countries;
- (iii) Full implementation of the objectives contained in ALALC resolutions 74 (III) and 108 (IV) relating to the financial co-operation to be afforded the economically relatively less developed countries;
- (iv) Implementation of the provisions of ALALC resolution 74 (III) concerning collective negotiations with the international credit agencies in support of requests for financial assistance from the economically relatively less developed countries;
- (v) Special consideration by the Capital Development Fund recently established by the United Nations, which will go into operation in 1968, for the financing of projects in the economically relatively less developed countries.

## F. TECHNICAL ASSISTANCE

### 1. General objectives

The special attention to be given to the relatively less-developed countries in matters of external technical assistance, in direct relation to the integration process, should be guided by the following primary objectives:

- (a) Study and preparation of programmes and projects relating to infrastructure and assistance in the execution of the related construction work;
- (b) Study and preparation of border area and river basin development programmes, and of multipurpose multinational projects;
- (c) Studies relating to the exploration, development and utilization of natural resources;
- (d) Study, preparation and implementation of sectoral agreements;
- (e) Identification, preparation and execution of industrial projects, particularly those relating to regional industries or industrial complexes;
- (f) Studies relating to the expansion and modernization of existing industries in order to adapt them to the new intra-regional competitive conditions and encourage such exports as may become profitable with the opening-up of the regional market, as well as studies relating to the reconversion of industries that are unable to compete;
- (g) Studies relating to the expansion and diversification of agricultural production, with due regard to competitive conditions in the regional market and to the opportunities afforded by the growth of consumption in Latin America;
- (h) Programmes designed to increase agricultural productivity (through measures to improve agricultural research and extension services, inter alia) and to strengthen and modernize marketing services;
- (i) Advisory assistance to entrepreneurs and training of skilled manpower.

2. Some priorities

In the context of these objectives, attention should be drawn to certain aspects of technical assistance which have traditionally been somewhat neglected, and to which special priority should be assigned in present circumstances. They include, inter alia, the following fields of action:

- (i) Identification of specific activities of special interest for the less developed countries from the standpoint of the regional market. The aim would be not merely to ascertain general possibilities, but to secure such technical co-operation as would lead to the formulation of specific preliminary projects;
- (ii) Establishment of procedures and machinery for export promotion. Having identified activities offering the less developed countries favourable opportunities for participation in the regional market, it becomes imperative to provide more technical co-operation in establishing marketing channels, through which a flow of exports to the region's markets could be started and maintained.

3. Technical assistance

Technical assistance for the relatively less developed countries should not only be adequate; it should also be provided in such a way as to ensure maximum effectiveness. In this connexion, the following requirements should be borne in mind:

- (i) Technical assistance in the field of integration must be closely linked and co-ordinated with the whole body of technical assistance being provided for purposes of promoting economic and social development;
- (ii) Technical assistance must be co-ordinated with financial aid and the agencies providing that aid. This is the only way to prevent waste of time and duplication of studies when proposals for a specific undertaking brought to the fore by technical assistance activities are submitted to the financing institutions;

/(iii) In

- (iii) In order to increase the effectiveness of technical assistance, its forms and procedures should be revised and adapted to the needs of the relatively less developed countries;
- (iv) Technical assistance should be extended to those private enterprises which are of special interest to the less developed countries in relation to the integration process. The services of experts in industry, production, administrative or business organization, or of specialists in key aspects of the production process should be made available to such enterprises on appropriate terms and for specific periods;
- (v) Steps should be taken to encourage the more advanced countries of the region to provide the technical assistance referred to in ALALC resolution 74 (III).

4. Co-ordination of technical assistance

Even on the basis of the total amount of technical assistance being allocated at present, and without underestimating the significant progress that has been made in recent years, that assistance could be much more effective if there were closer and fuller co-ordination at the national, regional and international levels. It is therefore suggested that:

- (i) Technical assistance agencies should seek practical ways and means of their activities more effectively in the relatively less developed countries;
- (ii) With the participation of the relatively less developed countries, technical assistance programmes should be periodically compared and their results evaluated with a view to adopting decisions for more effective co-ordination and establishing joint programmes, when deemed desirable;
- (iii) Contacts with international and regional financing agencies should be established or strengthened with a view to practical co-ordination at the stage of technico-economic feasibility and pre-investment studies.

5. Programme of action

In this context, it should be pointed out that regular contacts are maintained between the ECLA secretariat, the Latin American Institute for Economic and Social Planning, the regional integration agencies, IDB, ICAP and OAS and that meetings for co-ordination purposes have been held at various levels. These meetings have had very satisfactory results, and have often given rise to joint study programmes and to practical decisions relating to action and co-ordination in the technical assistance field. With the same end in view, it has been decided to hold an inter-agency meeting at Guatemala City, following the Meeting of the Economically Relatively Less Developed Countries, for a thorough discussion of co-ordination problems in the light of the proceedings at that Meeting.

The consensus of opinion is that efforts must continue to be pressed for a thorough review of all the technical assistance received by the relatively less developed countries. It would therefore be useful if all agencies and institutions concerned with technical assistance were to prepare, in conjunction with the relatively less developed countries, a kind of inventory of their present and planned activities. A methodical account should be given of the programmes, the amount of funds involved, the specific objectives pursued, and the modus operandi as well as some indication of the kind of problems and difficulties that hamper technical assistance activities or limit their effectiveness. Valuable background information would thus be made available on which to base specific decisions leading to more efficient and more closely co-ordinated action on the part of the various agencies. Due regard would be given to the decisions of individual countries and appropriate priority criteria would be applied.

/G. NATIONAL

## G. NATIONAL AND REGIONAL PROMOTION MACHINERY

### 1. National machinery

The increasing development needs and growing participation in the integration process bring into focus the necessity, particularly for the relatively less developed countries, to establish promotion machinery that will operate flexibly as part of the public administration in order to accelerate the preparation and implementation of national and regional projects. Accordingly, it would be desirable to ensure the efficient functioning of such bodies, either by expanding or improving existing national promotion agencies or by establishing new ones, depending on the particular circumstances in each country. A promotion mechanism should basically:

- (i) Operate in close co-ordination with national planning bodies so that its activities can be integrated in over-all programmes.
- (ii) Give priority to the study and initiation of productive activities regarded as necessary or strategic, especially in the industrial sector, and should contribute to the capital of such enterprises, if necessary, while reserving the possibility of transferring that investment to the private sector at a later stage;
- (iii) Stimulate the private sector by means of financing, preparation of projects, participation in joint investments, provision of technical assistance, etc.;
- (iv) Posses legal status enabling it to operate more freely and flexibly than is the general rule with most long-established State institutions; and
- (v) Co-ordinate its activities, through the appropriate machinery, with those of regional and sub-regional agencies with a view to accelerating the process of integration.

### 2. Relations with regional and sub-regional mechanisms

The effectiveness of promotion machinery will be enhanced if its activities are closely co-ordinated at the national, regional and sub-regional levels. The following issues are important in this respect:

/(i) The

- (i) The need to strengthen IDB's promotion activities by providing it with additional funds and programming its work along the lines of joint action with sub-regional promotion and financing agencies. These sub-regional agencies would co-ordinate their activities with national development corporation or banks, or other bodies with similar functions;
- (ii) Within this context, special attention would be devoted to the promotion of integration projects in economically relatively less developed countries.

3. Specific immediate and future action

The following priority measures are suggested for application in the economically relatively less developed countries in order to bring the promotion machinery into full and effective operation:

- (i) That the international and regional agencies should provide technical assistance for the restructuring of existing development corporations or banks, and the establishment of new ones where necessary, in accordance with the new requirements of development and integration;
- (ii) That the necessary steps taken for an exchange of experience among the promotion agencies of the economically relatively less developed countries, particularly in relation to industrial and agricultural projects. A kind of project clearing-house might be envisaged, since in many cases projects would cover the same fields.
- (iii) That studies should be made for the purpose of exploring possibilities for joint action by promotion agencies in those countries by initiating joint projects, studies, research or training programmes;
- (iv) That the work of these agencies should be co-ordinated in order to prepare the way, with the help of UNDP in collaboration with the United Nations Industrial Development Organization (UNIDO) and eventually with other organizations, for the establishment of pilot plans which might be of interest to two or more countries;

/(v) That

- (v) That technical assistance should be requested from those countries of the region which have made most progress in establishing promotion machinery;
- (vi) That procedures for financial co-operation should be worked out between two or more promotion agencies for the implementation of integration projects;
- (vii) That regional machinery should be established, through UNDP (Special Fund component) and with the participation of the competent regional agencies, to further the development of small-scale industry, in accordance with the guidelines approved at the Latin American Seminar on Small-Scale Industry held at Quito, Ecuador, in late 1966.

## H. INTERNAL DECISIONS AND MEASURES

1. It is recognized that the effectiveness of an integration policy for the economically relatively less developed countries depends, in the last analysis, on the efforts made by those countries themselves to accelerate their economic and social development and to make full use of the opportunities offered by integration. To be able to do so, they must formulate a national development policy compatible with the aims and prospects of regional integration, and adopt decisions and measures to implement integration policy. In general terms, and also in relation to more specific aspects, what is needed is a greater effort on the part of the countries concerned:

- (i) To mobilize greater domestic resources in order to step up capital formation and diversify the structure of production;
- (ii) To remove the structural and institutional obstacles that are limiting the possibilities of economic and social development;
- (iii) To increase the functions and strengthen the machinery of planning, and to include and give due importance in national development plans to the measures and action required to further the process of regional economic integration;
- (iv) To make a determined effort to introduce the procedural or other administrative changes required to implement integration policy and to make better use of external financial and technical co-operation.

2. Joint action and an exchange of information among the economically relatively less developed countries and between them and the other Latin American countries would be very useful in many of these fields. For this purpose, it is proposed that:

- (i) The economically relatively less developed countries should hold periodic technical meetings to review and evaluate the progress of regional integration in its different aspects and the current and future participation of these countries in the integration process; and that

/(ii) The

- (ii) The planning offices of all the Latin American countries should hold periodic technical meetings to enable the planning authorities to exchange information and to assess national development prospects in the light of the progress made by regional integration

