UNITED NATIONS

# ECONOMIC AND SOCIAL COUNCIL

GENERAL
E/CN.12/C.1/1/Add.1
1 October 1956

ORIGINAL: SPANISH
ENGLISH

ECONOMIC COMMISSION FOR LATIN AMERICA
Trade Committee
First Session
19 November 1956
Santiago, Chile



## NOTES ON THE PROVISIONAL AGENDA

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## Preliminary considerations

In recent years a major proportion of inter-Latin-American trade has been carried on under a system of bilateral clearing accounts, which - if petroleum values are excluded - covered about 85 per cent of inter-South-American commerce in 1955.[1/] This system was built up by means of a number of payments agreements and supplemented by provisions contained in trade treaties, in conformity with the special features of the exchange régimes and trade policy prevailing in the southern South American countries. But the clearing accounts mechanism was not merely a device for meeting the need to economize in transferable foreign exchange and for facilitating regional trade through the use of units of account and the granting of swing credits up to predetermined limits. It also permitted, in conjunction with other instruments of commercial policy,[2/] the channelling and expansion of the trade in question, and, in large measure, its liberation from the effects of foreign competition. Although this policy relegated to subordinate positions certain factors relating to price and quality, it was based on considerations of mutual convenience, and allowed - or at least facilitated - the sale on the regional market of surpluses of primary and intermediate products, as well as of certain manufactured goods.

On the other hand, this system of clearing accounts and other supplementary measures of trade policy not only failed to solve or remove some of the problems and obstacles which have traditionally hampered inter-Latin-American trade, but also embodied several shortcomings that impaired their efficacy as instruments for the promotion and expansion of such trade. Of these defects the two most noteworthy are: a) dissimilarity of methods and procedures, and b) the lack of connexion between the bilateral accounts. In contrast with the homogeneity of the motives that have brought the system

1/ This inter-South-American trade in turn represents approximately 90 per cent of total inter-Latin-American trade.

2/ Agreements on commodity trade for more or less equal values, application of selective and quantitative import controls through the permits system, or exemption from this requirement in certain cases, participation of official organizations in the marketing of specific products, etc.

/of clearing

of clearing accounts into such widespread use, the essential clauses in the various trade and payments agreements on which this régime is based display striking dissimilarities, outstanding among which is the divergency of opinion upon such important points as the granting of most-favoured-nation exchange treatment, observance of parities, reciprocal credits, settlement of balances, re-exports, inclusion or exclusion of invisible items, and even the registration of operations and accounting procedures. The absence of close international co-operation with respect to trade policy at the inter-Latin-American level makes itself felt in the total isolation of the several individual clearing accounts. The relevant agreements contain no clauses providing for transfers between more than two parties, despite the frequent accumulation of balances in certain bilateral trade channels, nor is any source of information yet available by means of which an over-all picture of such bilateral balances can be obtained. Hence the system of watertight compartments that characterizes the present structure of the clearing accounts is not exactly the most adequate to ensure a substantive broadening of the market which Latin America can offer to intra-regional trade.

To these obstacles have recently been added others deriving from the exchange reforms introduced by several South American countries, and from the evolution of their trade policy towards multilateralism and the liberalization of foreign trade. A new situation has thus arisen, into which many of the formulae previously devised for facilitating and encouraging intra-regional trade no longer fit, and in consequence of these fresh problems, radical changes have taken place in certain of the bilateral trade flows.

Two circumstances constitute the focal points of these problems. First, the import licence system has to some extent lost its importance as a selective instrument for determining the source of imports, since the new régimes give the importer more freedom to make his purchases indiscriminately in various markets. Secondly, on some of the exchange markets resulting from the reforms introduced, quotations for the units of account utilized in inter-Latin-American trade are lower than those registered for convertible foreign exchange, because of their non-transferability and the want of arbitration mechanisms.

The documents presented by the secretariat to the first session of the

/Trade Committee

Trade Committee give a detailed account of the structure of inter-Latin-American trade, especially with respect to payments.3/ They also describe the current situation and the problems created by the recent exchange reforms, as well as possible ways of overcoming these difficulties and others of longer standing, the analysis of which is based on the findings of a survey carried out in various Latin American countries.4/ The problem of the regional market and its bearing on the industrial development of Latin America is discussed;5/ and the evolution of inter-Latin-American commodity trade in 1954 and 1955 is analysed, together with the situation and prospects in 1956.6/

On the agenda drawn up for the first session of the Trade Committee these and other related problems appear under items 5,6 and 7. Items 5 and 6 are concerned in the main with short- and medium-term payments problems, respectively, and item 7 with the regional market. A summary of the content of each of these items is given below, in the order in which they occur on the provisional agenda, for the guidance of delegations in the discussion of the relevant topics.

1. Trade and payments agreements and recent exchange reforms in selected Latin American countries (Item 5 on the Agenda)

A matter so urgent as to call for short-term consideration is the revision of the trade and payments agreements in force among Latin American countries, with a view to bringing them into line with the new exchange régimes and with the tendency towards multilateralism observable in several of the republics in question, as well as to solving the inter-Latin-American trade problems created by such reforms.7/

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3/ See Study of Inter-Latin-American Trade (E/CN.12/C.1/2 and E/CN.12/369), Chapter V.

4/ See especially Payments and trade in Latin America. Current problems (E/CN.12/C.1/3) and Payments and the regional market in inter-Latin-American trade (E/CN.12/C.1/4), part I.

5/ See E/CN.12/C.1/4, part II.

6/ See Inter-Latin-American commodity trade in 1954 and 1955. Situation and prospects in 1956 (E/CN.12/C.1/5).

7/ The repercussions on inter-Latin-American trade of exchange reforms and new trends in commercial policy, as well as the problems created or accentuated thereby, are described and analysed in detail in E/CN.12/C.1/3, part I, sections 2 and 3. Possible solutions are presented in part II (especially section I) of the same document.

/In connexion

In connexion with this general topic, particular interest attaches to the discussion by the Committee of the following specific points: a) parities for units of account used in trade between Latin American countries; b) negotiation of multilateral agreements on the exclusion or inclusion of invisible items; and c) specific problems of trade in selected primary products. These will now be examined in outline.

a) Parities for units of account used in trade between Latin American countries

One of the most serious obstacles which the new exchange régimes have placed in the way of inter-Latin-American trade is the lack of parity between units of account and transferable foreign currencies on various exchange markets. In the case of Argentina, the absence of parity is due to the existence of two foreign exchange markets, one of which is official, with a fixed rate of 18 pesos to the dollar, while the other is a free market in which dollar quotations are considerably higher, and in which can be sold all or part of the foreign exchange earnings accruing from exports of a sizable group of commodities. However, as in this free market there is no machinery for the sale of units of account, exports to areas with which a payments agreement is in force must, even if they are scheduled in the free market, be negotiated through the official one.[8/] Consequently, if the Argentine exporter of products scheduled on the free market wishes to obtain the same amount of local currency for his sales against units of account as for those against transferable foreign exchange, he must raise his prices in terms of the former currencies in the proportion necessary to offset their lower quotations.

This system gives rise in practice to surcharges on exports against units of account of commodities produced in Argentina and scheduled on its free market, such as manufactured goods of all kinds and certain intermediate industrial products, as well as pork meat and fats, fresh fruit and mineral products. It has particularly affected Argentina's exports of fresh fruit to Brazil, and the greater part of its sales to Paraguay.

8/ All the 6 payments agreements in force between Argentina and other South American countries stipulate the maintenance of parity between units of account and the United States dollar; but under Argentina's new exchange régime parity is maintained only on the official market, and so far no means have been devised whereby it can be extended to dollar quotations on the free market in the case of products exported through this latter.

/As far

As far as Chile is concerned, units of account are quoted, like transferable foreign exchange, on the bank market, but at the price resulting from supply and demand, and without the maintenance of a predetermined relationship between quotations for the two kinds of currency.9/ As the result of Chile's credit balance in its clearing accounts, quotations for certain units of account on the Chilean bank market are invariably lower than those registered for transferable foreign exchange.10/ The Chilean exporter is therefore obliged to raise his prices for goods sold against units of account, to make up for the smaller amount of local currency he receives for each such unit in relation to his sales transacted in transferable foreign exchange.

There are a number of possible solutions to the inter-Latin-American trade problems arising from this lack of parity between units of account and transferable currencies. Attention is drawn, in the first place, to various suggestions which have been put forward for dealing with the specific difficulties of this nature handicapping Argentina's export trade, and, in the second, to other devices of a more general kind which could not be adopted unless simultaneous agreement were reached among several countries.11/

b) Negotiation of multilateral agreements on the exclusion or inclusion of invisible items

On the free markets recently created or expanded, transfers corresponding to invisible items in the balance of payments can be effected without official control, the currency to be utilized for this purpose being agreed upon by the interested parties. This is what actually happens; but the payments agreements in force between Argentina and Bolivia, Brazil, Chile and Paraguay stipulate that such transactions must be negotiated through the accounts instituted by the treaties themselves.

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9/ The only exception is the dollar unit of account used in trade between Argentina and Chile, as the parties agreed to maintain its parity with the United States dollar.

10/ The growth of Chile's credit balances in certain bilateral trade channels is in turn largely attributable to the interest shown by Chilean importers in making heavier purchases from the principal world markets, thanks to the freer régime and the abolition of the import permit system consequent upon the exchange reform introduced in April 1956.

11/ See the special analysis of measures in both categories in E/CN.12/C.1/3, part II.

/Herein lies

Herein lies another of the basic discrepancies between the provisions of the agreements and the real situation in the exchange markets, so clearly evident at the present time. The only way of dealing with it will be to consider either some modification of the treaties or a revision of the measures recently adopted.

The question under discussion at the moment is whether invisible trade should continue to be covered by the payments accounts or whether it should be excluded from these and its free conduct in any currency authorized. If the general provisions laid down are liberal in this respect, the argument on which the inclusion of invisible items in such accounts was based undoubtedly loses force. On the other hand, if their continued inclusion were decided upon, they would have to be given exchange rate parity, as well as transfer facilities similar to those available for other currencies. Otherwise, the regulations are likely to be evaded, as supervision is extremely difficult in this field. The existence of free exchange markets in all the South American countries would mean that no very complicated manoeuvres would be required in order to by-pass the accounts mechanism in such transfers, if any advantage were to be gained therefrom. This would be the situation that would arise if a decision to include invisible items in the clearing accounts were unaccompanied by the adoption of measures to ensure that quotations for units of accounts maintained strict parity with the United States dollar on the free markets of Argentina, Bolivia, Brazil, Paraguay and Uruguay, as well as on Chile's so-called stock exchange.

The prevailing tendency in Latin America is to advocate the exclusion of invisible items from payments accounts and their free negotiation in whatever currency is agreed upon by the interested parties. As the problem affects several countries, a general approach common to all of them would seem to be the most desirable. In connexion with this aspect of exchange questions, the position of the region's shipping companies should also be clarified, lest they encounter difficulties arising from the exchange regulations of the various countries.

c) Specific problems of trade in selected primary products

As background material for the discussions of the Committee, a document

/has been

has been prepared [12] in which recent developments in regional trade in selected products are described, and particular stress is laid on the difficulties,old and new, affecting such transactions. The products chosen were those that exemplified the most characteristic and significant of the problems arising in the course of trade among the more southerly countries of South America. Emphasis is also placed on the principal changes brought about by the modifications in exchange régimes and trade policies to which allusion has already been made.

To glance at only a few of the problems most directly linked with trade policy, attention must once more be called, in the first place - in view of the importance they have acquired - to the obstacles to trade in certain products resulting from the introduction of new exchange systems and the trend towards multilateralism. As has already been pointed out, of these fresh problems the two most outstanding are the lack of parity between units of account and transferable currencies on some exchange markets, and the abolition or liberalization of the import licence system in several countries. The former seriously handicaps exports of specific products to the regional market by raising their prices, and has already been analysed in some detail.[13] As regards the latter, the lifting or relaxing of the controls implied by the permit system, and the possibility of importing indiscriminately from different markets, has meant that considerations of price, quality, prestige, purchase facilities, etc., play a larger part than before in determining the source of many of the region's imports. This has exposed Latin American products to much keener competition in some of the southern markets of South America. It has also aggravated the longstanding problem of surcharges in regional trade in manufactured and intermediate products.

The new features of trade policy - especially the lesser importance of the exchange permit as an instrument of control, and, furthermore, the fact that in some instances official bodies which used to participate in the export and import of given products no longer do so - have hindered the renewal of certain sales contracts and the application of formulae based on barter arrangements or designed to solve specific problems, like that arising, for

12/ See E/CN.12/C.1/5.

13/ See point a) above.

/example, in

example, in the case of Chile's exports of copper to Argentina.

Again, stress must be laid on the persistence of a problem which dates from several years back. Certain trade movements involving products negotiated on the basis of annual contracts or yearly schedules of a bilateral character, or through sales operations arranged by official organizations, are hampered - and even brought to a standstill - when there are delays in the renewal of such contracts or schedules or in the concerting of the operations in question. Furthermore, this is apt to cause uncertainty among producers in the exporter and consumers in the importer country.

2. <u>Problems arising from bilateral settlement of accounts and the non-transferability of balances</u> (Item 6 on the Agenda)

In the present document it was emphasized at the very outset that existent clearing accounts between South American countries operate within strictly bilateral channels, without any inter-communication whatsoever. This not only constitutes an obstacle to the possible expansion of the region's trade - since it prevents the movement of balances between more than two countries by means of transfers and clearing - but also impedes the solution of problems which can only be satisfactorily tackled if several countries come to a simultaneous understanding. The problem of parities for units of accounts is a case in point; the measures which would have to be applied by the Central Banks to ensure the maintenance of parities could be more easily adopted in a broader setting than that provided by bilateral clearing arrangements, and within a mechanism that enabled balances to be more fully utilized through multilateral transfers and clearing accounts. On the other hand, without fixed parities for the various units of account, it appears unwise to consider the possibility of transferring balances from one bilateral channel to another.

An idea which has repeatedly been discussed in competent circles is that of establishing a multilateral clearing system, which would necessarily involve some degree of liberalization of trade in both commodities and services. This suggestion has once more been put forward in the context of the exchange reforms introduced in the area, although in present circumstances it seems advisable for the time being to pursue aims less ambitious than the institution of a clearing organization.

/To such an end

To such an end measures might be put into effect with a view to gradually transcending, in the course of a period of transition, the rigid bounds imposed by bilateralism as it exists at present. The steps to be taken would be directed towards the achievement of some degree of co-ordination in the system of clearing accounts through the standardization of the provisions laid down in payments agreements. This would be quite feasible if general agreement could be reached as to the basic clauses which such treaties should embody.14/

As a first move towards closer collaboration among the institutes concerned with inter-Latin-American payments, consideration has been given to the need for the Central Banks of Latin America to be kept periodically and regularly informed of the position of the balances in each of the bilateral trade flows. This could be supplemented by a simple mechanism to channel voluntary proposals and counter-proposals for the transfer of balances above given levels between more than two countries, through operations conducted in each case at the exchange rate agreed upon between the parties or at the fixed parity rate.

For instance, if at the meeting of the Trade Committee data were available as to the state of the balances of the various Latin American clearing accounts on 30 September 1956, and as to their recent evolution - information which could be supplied by the Central Banks - it would be easier to discuss these questions and to adopt a line of conduct aimed at the ultimate establishment of a progressive system of transfers of balances in Latin America.

Interest attaches in this connexion to the pattern followed by inter-Latin-American trade balances over the last few years, since it reveals trends which, if encouraged by fuller co-operation in the sphere of trade policy, would create conditions favourable to the increasingly widespread application of multilateral procedures. It should be emphasized that in the last two years non-compensatable balances in trade on account between the eight South American countries whose commercial relations are governed by payments agreements have represented only about one-third of the aggregate reciprocal

14/ See E/CN.12/C.1/3, annex 2, for the presentation and analysis of these basic clauses.

credits provided for in the treaties concerned. Moreover, among three countries whose trade on account constitutes 75 per cent of all the transactions of this type effected in Latin America, no transferable currency disbursements for the settlement of balances have been recorded since 1950. And while it might be alleged that this may have been to some extent due to the application of restrictions aimed at preventing balances in excess of the agreed reciprocal credit from accumulating in certain bilateral channels, there are also grounds for the belief that such restrictions might possibly have been unnecessary, or the bilateral balances considerably lower, had multilateral clearing arrangements been feasible.

One of the documents submitted to the consideration of the Committee contains an analysis of the way in which this gradual transition might be effected and co-ordinated in the direction of a multilateral policy, and of how the various problems arising might be tackled and solved. 15/

3. Possibilities for expanding inter-Latin-American trade in intermediate and manufactured products (Item 7 on the Agenda)

a) Effect of exchange reforms

Attention has already been called to the principal effects produced on intra-regional trade by recent exchange reforms and by the reorientation of trade policy in some of the South American countries.16/ The only point that need be stressed here is that the problems deriving from exchange reforms and the liberalization of commercial policy have especially affected trade in intermediate and manufactured products, for the very reason that this was the branch of trade which, under the former more rigid system of surcharges, controls and bilateralism, had become least subject to the influence of the traditional competitive factors and most dependent upon the guidance and stimulus provided by official action. In the examination of intra-regional trade problems, therefore, particular attention should be devoted to the position of intermediate and manufactured products, as well as to the desirability of adopting procedures - preferably multilateral in their scope -

15/ See E/CN.12/C.1/4, part I.

16/ A fairly detailed account of these repercussions and the resultant problems is also given in documents E/CN.12/C.1/3 (especially part I, section 3) and E/CN.12/C.1/5.

consistent with the new exchange régimes and commercial policies, and calculated to enable trade in such commodities to be maintained and even expanded.

Here the two questions of vital importance are as follows: a) whether it will or will not prove practicable to bring prices for the region's manufactured goods down to or closer to competitive levels, and b) whether special incentives can or cannot be created with a view to replacing those instruments for the promotion of inter-Latin-American trade which until recently were provided by the system of direct control of foreign trade.

As regards the first of these points, the conviction exists that it is up to the exporter country to devise expedients enabling it to sell its products at competitive prices. It seems, however, that the greater the disparity between quotations for the units of account accruing from the exports in question and for transferable foreign exchange, the more difficult will this prove, since in such instances, even when the position as regards productivity is similar, the exporter is unlikely to be able to compete with sales from the transferable currency areas.

With respect to the second aspect of the problem, the opinion has been expressed in some countries that it would be necessary to resort to expedients which might, even if only in part, provide substitutes for the stimuli formerly supplied through direct control and bilateral agreements. In principle, there are no immediate prospects of the customs tariff's being used as an instrument to this end, given the peculiar situation in certain countries where no freedom of movement attaches to customs duties, frozen as they are under the terms of agreements with countries outside Latin America. As an alternative, several of the Latin American countries, to judge from the data collected, are studying the advisability of adopting ad hoc measures designed to serve the same purpose, at least provisionally. Such measures include: i) the establishment of a more favourable exchange rate for certain exports or imports; ii) the exemption of given commodities from import bans or quantitative restrictions, or from the requisite of import licences in countries where this system still prevails; iii) the waiving, in the case of imports from Latin America, of the regulations requiring prior deposits in local currency; and iv) the granting of certain

/domestic credit

domestic credit facilities.[17]

b) Creation and expansion of industries for the regional market

For some time now the Latin American countries have been seeking foreign markets for their manufactured goods, as the best way of overcoming the difficulties in creating and expanding certain industries to which the limited absorption capacity of their individual domestic markets gives rise. Such difficulties hinge on the fact that unless a large enough market is available, the installation of some industries proves anti-economic, or their operation inefficient. Too narrow a market thus constitutes a serious obstacle to economic development, and, above all, hampers the establishment or expansion of activities which - like the capital goods and many of the durable consumer goods industries - require more or less heavy investment, and must produce on a large scale if they are to operate efficiently and at relatively low unit costs. Again, the fact that most of the Latin American countries are pursuing economic development programmes mainly based on the promotion of industrialization has led to unnecessary duplication and to the multiplication of industries which turn out to be unsound propositions either because of their small size or because the lack of a broad enough market forces them to work far below their installed capacity.

It seems patent that the solution of such problems lies in the setting-up of a regional market for those industries which cannot otherwise operate satisfactorily. This regional market - which would be based on the principle of reciprocity, and would be gradually formed by the adoption of measures to facilitate trade in intermediate and manufactured products - would provide, through the consequent expansion of consumption, the conditions requisite for economic complementarity and specialization, for the more efficient utilization of resources and for the improvement of productivity. Not only would it thus be possible to overcome the current difficulties inherent in parallelism and idle installed capacity, but the creation of many new industries and the expansion of some that are already in existence would be encouraged or rendered possible. This in turn would mean that much greater progress than is feasible at present could be made in import substitution

17/ See E/CN.12/C.1/3, annex 2, (k).

policy, especially where capital goods are concerned.

Inter-Latin-American trade in manufactured goods - and therefore the establishment of a regional market for such products - is at present obstructed by the difficulties implicit in the import restrictions imposed by the individual countries, and, insofar as imports are allowed, by the problem of competition from similar products supplied by the highly industrialized countries. Latin American manufactures usually find themselves at a disadvantage in face of such competition, both on account of their inferior productivity - which is reflected in heavier costs and higher prices, a state of affairs often aggravated by inflation and by the application of over-valued exchange rates - and for reasons connected with quality, the prestige of traditional brands or suppliers, consumer habits, familiarity with the product, the organization of the export trade, knowledge of market requirements and characteristics, credit facilities, etc. Nevertheless, many Latin American countries are interested in promoting their exports of manufactured goods, and this can be achieved on the basis of agreements providing for the creation of a regional market with reciprocal benefits for all the contracting parties. Ultimately the market could operate on fully competitive lines. Meanwhile - and for some time to come - preferential treatment will be necessary, as well as a co-ordinated and consistent policy, to ensure the elimination of certain important factors whence disadvantages may arise; on the other hand, many or most of these disadvantages will disappear or be considerably mitigated as the result of a more efficient organization of inter-Latin-American trade relationships, or of the very availability of a larger market.

The aim to be pursued would therefore seem to be the progressive building-up of a regional market, at least for specific intermediate and manufactured products, on a basis of reciprocity and complementarity. This regional market - which could be gradually expanded until it embraced the whole of South America, or Latin America in its entirety - while granting preferential treatment to the region's industrial output, should be competitive within itself, to prevent the establishment of monopolies and to ensure that the location of industries be determined as far as possible by purely economic considerations.

/In this connexion,

In this connexcion, one of the Trade Committee's tasks would be to study the general principles on which the regional market would be based, and to define the trade policy procedures which are considered best fitted to further its creation.

A special document prepared by two consultants for the consideration of the Committee[18/] examines the problem of the regional market from a number of different standpoints. The ideas set forth were collected in various South American countries, and most specifically relate to the method of implementing an integration programme.[19/] The first step would be to investigate which industries, whether in their early stages or not yet established, could be created or developed only if the regional market were available, in view of the capital formation and volume of consumption required for their operation;[20/] and the second, to ascertain which other industries, among those already installed in the individual countries depend upon such a market for the reduction of their costs and for their future expansion.

To facilitate the creation or expansion of industries for the regional market, and in accordance with the suggestion put forward in the document cited, the Trade Committee might consider what would be the most satisfactory procedure for consultation on each occasion among the countries and with the investors concerned as to the type of activities to be undertaken by the latter and the facilities it would be possible to offer them.

In conformity with the indications gathered from various sources, private enterprise and organizations would, as can be seen, play an important role in the implementation of an integration programme. However, there is one aspect of the process of establishing a regional market which is almost entirely in official hands, namely, everything relating to trade policy and to the facilities of various kinds, but especially of an administrative nature, which Governments can offer to intra-regional trade. Experience shows

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18/ See E/CN.12/C.1/4, especially part II.

19/ See the above document, especially part II, section 2, (g), *et seq.*

20/ This first aspect of the problem would undoubtedly lend itself best to a more or less immediate form of action. Within this category of industries, where many opportunities exist that would justify heavy investment - Latin-American or extra-regional, or both - if markets larger than those of the individual countries were available, mention may be made of the iron and steel, metallurgical, pulp and paper, motor vehicle, railway and naval material, chemical and other industries, mainly those producing capital goods and, to a lesser extent, those manufacturing durable consumer goods.

Experience shows that inter-Latin-American trade in manufactured products - especially among the countries of the Southern Zone - has encountered, among other obstacles, hindrances deriving from administrative causes and from the lack of a uniform and stable system governing such trade. The elimination of these difficulties, and the simplification of administrative formalities, which have sometimes been the factors most responsible for impeding the fuller development of trade in manufactured goods, should be given high priority in the discussions of the Trade Committee. Moreover, this is felt to be the sphere in which immediate action is most practicable and most essential.