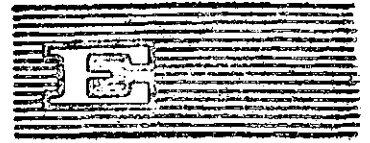


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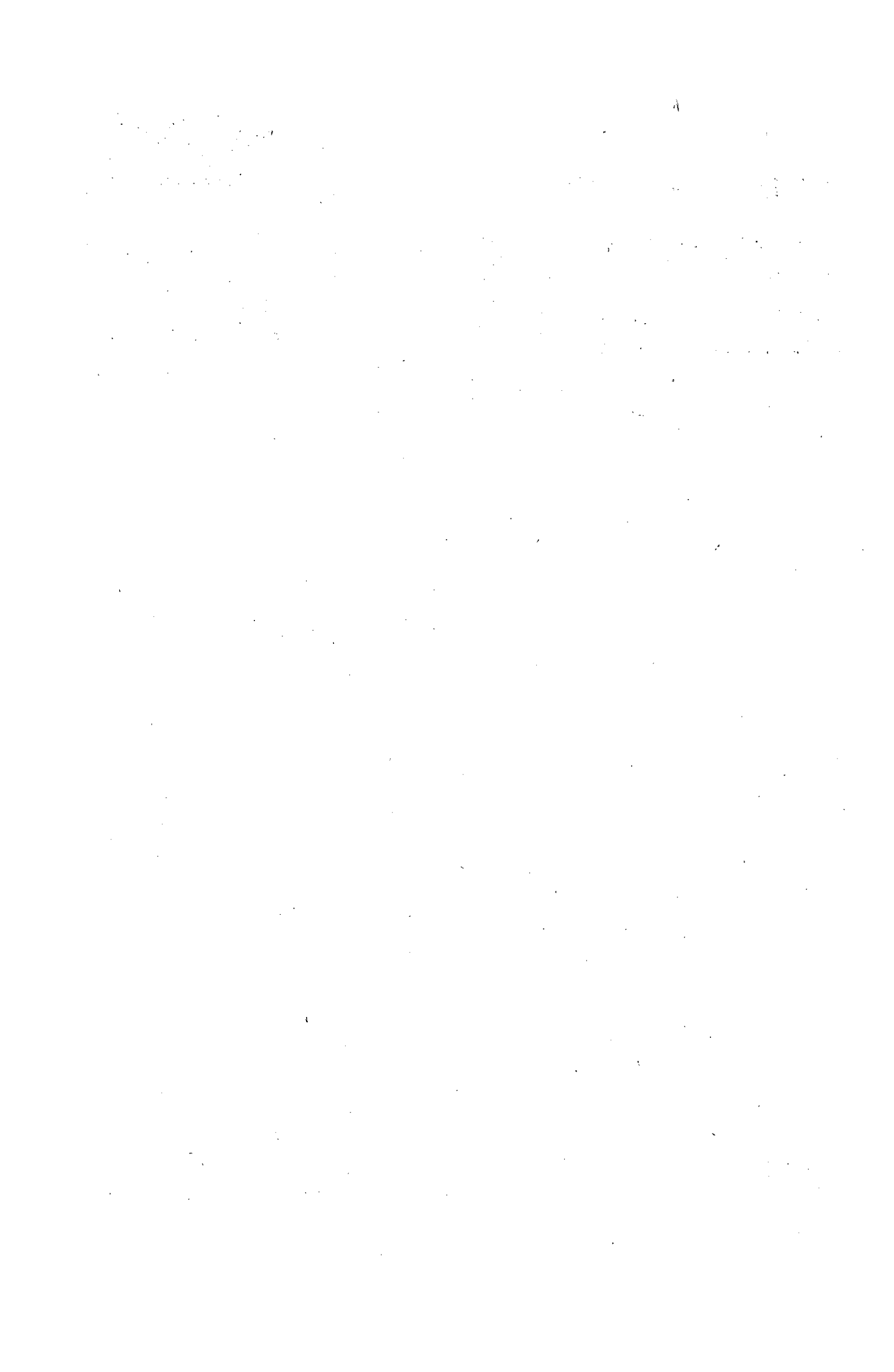
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LATIN AMERICA AND THE THIRD SESSION OF UNCTAD



Chapter V

TRADE AND CO-OPERATION AMONG DEVELOPING COUNTRIES

1. General aspects of the problem

Trade relations between developing countries, particularly in different geographical areas, have not been very significant in the past since the structure and direction of their foreign trade flows have been almost exclusively geared to the markets of developed countries. This has resulted in the absence or inefficient operation of transport and insurance services, banking connexions, marketing and distribution machinery and other services which facilitate the channelling and expansion of reciprocal trade between developing countries.

The fact that most of these countries are still in the early stages of industrial development, the policies they have adopted to protect domestic production from foreign competition and to obtain fiscal revenue, and their virtually chronic balance-of-payments problems are other obstacles to negotiating the reduction of reciprocal trade barriers <sup>1/</sup>, because of the difficulty of planning concessions in terms of an equitable distribution of the benefits concerned.

In the 1960s the developing countries set about eliminating or lowering their reciprocal tariff barriers under various regional and sub-regional integration and economic co-operation systems (LAFTA, CACM, CARIFTA and the Andean Group in Latin America), which enabled intra-regional trade to expand more rapidly than trade with developed countries and developing nations in other regions <sup>2/</sup>. In this connexion, the following preliminary conclusions may be drawn:

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<sup>1/</sup> Leaving aside, for the moment, legal commitments concerning non-discrimination entered into by developing and developed countries under intergovernmental agreements such as the General Agreement on Tariffs and Trade, or bilateral agreements including the most-favoured-nation clause.

<sup>2/</sup> See chapter II.

(a) The expansion of trade between developing countries, especially in different geographical areas, is clearly a fairly long process which will require sustained efforts on the part of the developing countries themselves and financial and technical support from the international community;

(b) The institution and strengthening of regional and sub-regional integration processes is the responsibility of the developing countries and depends upon their political will to achieve such work, and

(c) Trade expansion among developing countries is no substitute for the urgent need to achieve a larger volume of trade with developed countries, which should offer easier access to their markets for primary products and manufactures which are of export interest to developing countries.

International action undertaken to facilitate trade expansion, economic co-operation and regional integration among developing countries includes a meeting of the Intergovernmental Group set up within UNCTAD 3/, and the establishment within the legal framework of GATT of a Trade Negotiations Committee of Developing Countries, which receives technical assistance jointly from the GATT and UNCTAD secretariats. A first result of the negotiations carried on in this forum was the Protocol signed by a group of developing countries and recently adopted by the Contracting Parties which exempted the Member States from complying with the provisions of the most-favoured-nation clause as far as tariff concessions agreed among them are concerned.

## 2. Action taken by UNCTAD

In Annex A.III.8 to the Final Act of its first session, the United Nations Conference on Trade and Development, recognizing the urgent need for closer and intensified economic co-operation among developing countries, particularly in the promotion of trade in manufactures and semi-manufactures among those countries, recommended that the rules governing world trade should permit developing countries "to grant each other concessions, not extended to developed countries, in view of the requirement to meet the needs, during a transitional period of developing countries for the purpose of promoting their exchanges of goods and services" 4/.

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3/ See Trade and Development Board resolution 53 (VIII).

4/ Other recommendations on the subject are in annexes A.II.5, A.IV.10 and A.VI.8 of the Final Act.

/This recommendation

This recommendation advocates for the first time at world level the establishment of a system of trade preferences among developing countries, not extended to developed countries, as a mechanism for intensifying trade and economic co-operation among the countries in question. Eight years were to pass before this principle was put into effect when the Contracting Parties of GATT decided that the most-favoured-nation clause should not be applicable to the concessions agreed on by a group of developing countries 5/. The UNCTAD secretariat took an active part in the discussions of the Trade Negotiations Committee of Developing Countries which was set up in November 1967.

At its second session held at New Delhi, UNCTAD adopted a Concerted Declaration on trade expansion, economic co-operation and regional integration among developing countries. The first part of this Declaration expresses the common view that trade expansion, economic co-operation and integration among developing countries are important elements of an international development strategy, describes the special problems hampering their achievement, and recommends appropriate external financial and technical assistance to overcome such difficulties and thus achieve more rapid progress. The second part consists of a statement of intent by the developing countries in which they state their determination to make all efforts, between then and the third session of the Conference, to negotiate or put into effect further meaningful commitments among themselves within the frameworks of their choice.

The third and fourth parts include declarations of support by the developed market-economy countries and the socialist countries, respectively. The developed market-economy countries state that they are prepared to support, in the allocation of their financial and technical assistance, initiatives in regional co-operation instituted by the developing countries. In the field of financial aid, such support might include "...assistance to financial institutions embracing groups of developing countries, including regional and sub-regional development banks; financial assistance in the planning and implementation of regional projects, and interim support for the needs of developing countries arising from obligations which they have undertaken in connexion with their participation in arrangements for regional co-operation or integration...", while in the field of commercial policy, it could include "their acceptance of derogations from existing international trading obligations, including appropriate waivers of their rights to most-favoured-nation treatment". The socialist countries also express their readiness to support the efforts of the developing countries.

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5/ Protocol of 26 November 1971.

The fifth part of the Declaration sets out the common views of all the countries participating in the Conference on the future programme of work and institutional arrangements. It was agreed that "appropriate institutional arrangements for continuing work on this subject on a permanent basis within the UNCTAD framework should be set up before the end of 1968". In spite of the developing countries' insistence on the setting up of a permanent committee to deal with specific problems in this connexion, in line with the decisions adopted in the Concerted Declaration, and in spite of the fact that the UNCTAD secretariat had established a special programme on trade expansion, economic co-operation and regional integration among developing countries, it was not possible to secure the adoption of the institutional measures they demanded. Instead it was decided to convene an intergovernmental group to examine the outstanding questions in this field and recommend ways and means of facilitating the implementation of the Concerted Declaration. Furthermore, the Secretary-General of UNCTAD was requested, "in cases where particular concrete schemes in the field of trade expansion, economic co-operation and regional integration are submitted to him by groups of developing countries, to consult developed countries on the desirability of convening meetings to examine such schemes with a view to considering national or international support action in accordance with the Declaration of Support by developed countries" 6/.

The report of the Intergovernmental Group 7/, presented in the second part of the tenth session of the Trade and Development Board, reviews the main obstacles encountered by developing countries in executing trade expansion, economic co-operation and regional integration projects and suggests some corrective measures in the fields of external financial and technical assistance, co-ordination of development policies, market studies, trade liberalization and the system of preferences, multilateral payments agreements, common insurance plans, free movement of labour and special treatment for the least developed of the developing countries which are members of integration systems. The Group also invited the Committee on Shipping to indicate specific measures in its field which could help to promote intra-regional trade among developing countries.

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6/ See Trade and Development Board resolution 53 (VIII).

7/ See Trade and Development Board, "Report of the Intergovernmental Group on Trade Expansion, Economic Co-operation and Regional Integration among Developing Countries" (TD/B/333).

In view of the negative attitude of some developed countries, the Trade and Development Board merely took note of the Group's conclusions and recommended that the main committees of the Board and other subsidiary organs should examine the matters falling within their spheres of competence 8/.

3. Trade negotiations among developing countries within GATT

The Committee on Trade and Development of GATT established a working group in 1965 to explore the possibilities of contributing towards the expansion of trade among developing countries on the basis of the proposals made at the Ministerial Meeting held in 1963. Trade negotiations were initiated with the Kennedy Round in 1966, but were broken off at the beginning of 1967 owing essentially to the fact that the general negotiations were progressing so fast that they required all the concentrated efforts of the Contracting Parties. Although this attempt led to no concrete results, the preliminary discussions and exchange of statistical and commercial data served to convince a number of developing countries that there were genuine possibilities of promoting reciprocal trade.

The 32 members and non-members of GATT 9/ which had originally participated in the negotiations were reduced in October 1970 to 19 countries, which presented their lists of requested concessions, while some made offers of concessions. It was necessary to prolong the negotiations for a further year, however, until agreement could be reached on the Protocol and the structure of the Schedule of Concessions.

Among the countries which withdrew from the negotiations were those of the African Group which, with the exception of the United Arab Republic, did not show any real eagerness to participate, either because of their current economic situation, because of problems connected with reverse preferences, or because they considered that their bargaining position would not assure them of any substantive advantages. After four years of negotiations, 16 developing countries acceded to the Protocol and the Schedule of Concessions, including Spain which is not a member of the Group of 77 10/. The Protocol in question,

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8/ See "Report of the Trade and Development Board on the second part of its tenth session" (TD/B/343).

9/ The Latin American countries included Argentina, Brazil, Chile, Colombia, Cuba, Dominican Republic, Mexico, Nicaragua, Peru, Uruguay and Venezuela.

10/ The signatory countries were: Brazil, Chile, Egypt, Greece, India, Israel, Korea, Mexico, Pakistan, Peru, the Philippines, Spain, Tunisia, Turkey, Uruguay and Yugoslavia.

/which was

which was adopted by the Contracting Parties of GATT at its twenty-seventh session, establishes a system of tariff preferences among the signatory countries, and is open for accession to all developing countries whether or not they are members of GATT.

The 16 participating countries offered reciprocal concessions for some 500 tariff items or sub-items covered by 195 4-digit BTN headings, of which approximately 30 per cent are agricultural products, with some raw materials, and the rest are manufactures and semi-manufactures. According to a preliminary estimate, the total value of the negotiated products imported by the participating countries amounts to 45 to 50 million dollars. The concessions are in the form of a tariff of preferential duties, a compulsory preference margin expressed as a percentage of the tariff of the most favoured nation, or, in a few cases, a percentage reduction in that tariff. Although at first the negotiations covered both tariff and non-tariff barriers, the concessions finally negotiated do not relate to the latter.

As regards the extension of the concessions to non-participating developing countries, it is planned to set up a Committee of Participating Countries to be responsible, *inter alia*, for taking the necessary steps to facilitate the accession of developing countries to this Protocol on terms consistent with their present and future development needs, financial and trade requirements as well as the past evolution of their foreign trade.

The same principle of securing reciprocal benefits agreed on by the original participating countries, i.e., their extension through negotiations, or in some circumstances even without negotiations, is applicable to countries seeking accession <sup>11/</sup>. In practice, each country is free to demand reciprocity or not, according to its own evaluation of the concessions.

This formula, which is in fact a declaration of intent, avoids any specific mention of the principle of special trade advantages for the least developed of the developing countries, which would have obliged the participating countries to establish in advance the criteria for classifying a country in that category. Nevertheless, from the spirit of the Protocol it is evident that reciprocity will not be required from some countries or that appreciably smaller concessions will be expected from them than those accorded by the original participants.

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<sup>11/</sup> The Tripartite Agreement between India, the United Arab Republic and Yugoslavia is worthy of note in this connexion.



The Protocol contains saving clauses in respect of measures which the participating countries may adopt because of balance-of-payments difficulties or pressing problems connected with imports of particular products. In both cases the procedure consists basically of holding consultations as far in advance as possible, or, where the circumstances are critical, immediately after the adoption of the measures, with the Committee of Participating Countries and with those countries which may be affected by the new measures. In the case of balance-of-payments difficulties, an attempt will be made to safeguard the value of the concessions, while in the case of damage caused by preferential imports, the concessions must be restored as soon as the damage has been averted or made good. The Committee may authorize a participating country temporarily to suspend compliance with the whole or part of its commitments; the rest of the participating countries, if they so wish, may suspend their concessions to that country.

During the first year in which the agreement is in force the participating countries will apply their respective rules of origin and communicate them to the Committee, which will examine them with a view to improving or harmonizing their scope and application to negotiated products or establishing common rules of origin which include provisions regarding the way in which imported components are to be treated in this connexion. Before the Protocol has been in force for five years, the Committee will make a general review of all the agreements concluded between the participating countries in order to decide whether they should be modified, extended or terminated.

As the Protocol just discussed shows, trade negotiations among developing countries provide an excellent opportunity to set up preferential mechanisms for increasing the volume of trade, particularly between countries in different geographical areas or not linked by integration agreements and to improve the conditions for economic and financial co-operation from the point of view of all the countries concerned. Better knowledge of common problems and systematic comparison of countries' import requirements and export capacity is likely to reveal trade development prospects that were previously unknown for want of reciprocal information or because deficiencies in transport, infrastructure, payments and other services hitherto prevented them from materializing. International organizations and developed countries are in a position to make an important contribution in this respect by providing the financial and technical assistance needed to overcome those problems.

4. Some problems faced by the developing countries

In their efforts to forge ahead in trade expansions, economic co-operation and regional integration, the developing countries face a great many problems among which the following may usefully be mentioned:

- (a) Inadequacy of physical and trade infrastructure and high transport costs between developing countries;
- (b) Excessive protection of production activities resulting from the high customs duties which developing countries charge for fiscal and protectionist reasons and because they fear the effects of trade liberalization on production and employment levels;
- (c) The difficult access to developed markets for products of export interest to developing countries and the continuing deterioration in their terms of trade;
- (d) The preferential benefits enjoyed by certain developed countries in the markets of some developing countries, which often make it difficult for exports from other developing countries to compete. The complete elimination of reverse preferences, or their extension to all developing countries, with a certain degree of trade reciprocity for those now according them, would make for significant progress in trade expansion and economic co-operation among developing countries, particularly in different geographical regions. It would also give developed countries the chance to put their promised support into effect. In this connexion, it is worth noting that the Government of the United Kingdom released one of the signatories of the Tripartite Agreement between India, the United Arab Republic and Yugoslavia from contractual obligations in order to make the full implementation of the Agreement possible 12/.
- (e) The balance-of-payments difficulties of many developing countries and the need to cushion the possible adverse effects of certain import liberalization programmes until such time as effective trade reciprocity is assured;

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12/ See "Report of the Intergovernmental Group on Trade Expansion, Economic Co-operation and Regional Integration among Developing Countries", TD/B/333, paragraph 35.

(f) The inadequate external co-operation with regional and sub-regional banks and finance institutions, particularly in view of the high pre-financing and financing costs of multinational projects, and

(g) The need to find effective formulas for enabling the least developed members of regional groupings to secure from the start an equitable share of integration benefits.

#### 5. The evolution of inter-Latin American trade \*

Because of the slow growth of its exports, Latin America's share of world trade has steadily declined, both as regards the developed countries and the other developing areas. Intra-regional trade, in contrast, has been increasing rapidly.

Between 1960 and 1970, inter-Latin American trade grew rapidly at an average annual rate of 9.8 per cent between 1960 and 1968, 14.7 per cent in 1969 and 7.7 per cent in 1970 (see table 1).

The proportion which this trade represents in total Latin American exports is rising swiftly, though not fast enough to set off the structural changes that are needed to ensure more sustained regional economic growth. Intra-regional trade accounted for about 8 per cent of total Latin American exports in 1960 and averages of 8.7 per cent between 1961 and 1965 and 11.9 per cent between 1966 and 1970. It reached a peak of 13 per cent in 1969, and then dropped slightly to 12.9 per cent in 1970. An increase in this trade could help to remove some of the external obstacles to Latin America's economic development, as far as its excessive dependence on a small group of foreign markets and the inadequate diversification of its exports are concerned. If exports of manufactures could be stepped up, it would be possible to take advantage of the more dynamic tendencies of this class of exports <sup>13/</sup>, not to mention the positive effects that it would have on the exporting countries' own economies.

The intensification of intra-area trade has resulted not only in more active participation at the individual country level, but also in a reduction of the individual countries' trade surpluses and deficits with the rest of the region from 1968 onwards (see table 2).

In 1970, the ratio of negative balances to the total value of intra-regional trade was 0.17, compared with 0.42 in 1960-1961, 0.28 in 1968, and 0.20 in 1969.

\*/ More recent figures can be found in the excerpt from the Economic Survey of Latin America, 1971.

13/ See chapter III.

/Table 1

Table 1  
LATIN AMERICA: EVOLUTIONS OF INTER-LATIN AMERICAN TRADE  
(Millions of dollars)

| Period              | World trade          | Latin American exports | Latin American imports | Inter-Latin American trade | Percentages |            |            |
|---------------------|----------------------|------------------------|------------------------|----------------------------|-------------|------------|------------|
|                     |                      |                        |                        |                            | (2)<br>(1)  | (2)<br>(1) | (4)<br>(2) |
|                     | (1)                  | (2)                    | (3)                    | (4)                        | (5)         | (6)        | (7)        |
| 1934-1938 average   | 20 358 <sub>a/</sub> | 1 923                  | 1 358                  | 113                        | 9.4         | 6.7        | 5.9        |
| 1946-1951 average   | 52 662 <sub>a/</sub> | 6 147                  | 5 754                  | 581                        | 11.7        | 10.9       | 9.5        |
| 1952-1953 average   | 74 405 <sub>a/</sub> | 7 364                  | 6 929                  | 661                        | 9.9         | 9.3        | 9.0        |
| 1960                | 127 400              | 8 030                  | 7 550                  | 670                        | 6.3         | 5.9        | 8.3        |
| 1961                | 133 090              | 8 060                  | 7 797                  | 572                        | 6.1         | 5.9        | 7.1        |
| 1962                | 141 410              | 8 621                  | 8 019                  | 643                        | 6.1         | 5.7        | 7.5        |
| 1963                | 153 860              | 9 220                  | 7 853                  | 741                        | 6.0         | 5.1        | 8.0        |
| 1964                | 172 160              | 9 977                  | 8 572                  | 958                        | 5.8         | 5.0        | 9.6        |
| 1965                | 186 390              | 10 512                 | 8 846                  | 1 080                      | 5.6         | 4.7        | 10.3       |
| 1966                | 203 400              | 11 135                 | 9 753                  | 1 170                      | 5.5         | 4.8        | 10.5       |
| 1967                | 214 190              | 11 001                 | 9 952                  | 1 210                      | 5.1         | 4.6        | 10.8       |
| 1968                | 238 750              | 11 197                 | 11 204                 | 1 440                      | 4.7         | 4.7        | 12.6       |
| 1969                | 272 350              | 12 535                 | 11 929                 | 1 624                      | 4.6         | 4.4        | 13.0       |
| 1970                | 309 600              | 13 530                 | 13 652                 | 1 749                      | 4.4         | 4.4        | 12.9       |
| <u>Growth rates</u> |                      |                        |                        |                            |             |            |            |
| 1960-1970 average   | 9.3                  | 5.4                    | 6.1                    | 10.0                       |             |            |            |
| 1960-1965 average   | 7.9                  | 5.5                    | 3.2                    | 10.0                       |             |            |            |
| 1965-1970 average   | 10.7                 | 5.2                    | 9.1                    | 10.1                       |             |            |            |
| 1969                | 14.1                 | 11.9                   | 6.5                    | 12.8                       |             |            |            |
| 1970                | 13.7                 | 7.9                    | 14.4                   | 7.7                        |             |            |            |

Source: ECLA, A Study of Inter-Latin American Trade (E/CN.12/369/Rev.1); United Nations, Monthly Bulletin of Statistics; and official data supplied by Latin American countries.

a/ The figures for years prior to 1960 do not include the trade of Albania, Bulgaria, Mainland China, Czechoslovakia, the German Democratic Republic, Hungary, Poland, Romania and the USSR.

/Table 2

Table 2  
INTER-LATIN AMERICAN TRADE BALANCES

(Millions of dollars)

| Country            | 1961          | 1968          | 1969          | 1970          | Cumulative balance |                 |
|--------------------|---------------|---------------|---------------|---------------|--------------------|-----------------|
|                    |               |               |               |               | 1961-<br>1965      | 1966-<br>1970   |
| Argentina          | -53.2         | +97.0         | +32.2         | +28.0         | +160.7             | +255.3          |
| Bolivia            | -7.5          | -13.6         | -12.1         | -19.0         | -44.1              | -67.4           |
| Brazil             | -35.4         | -90.7         | -35.5         | -35.7         | -510.2             | -229.9          |
| Chile              | -62.0         | -77.7         | -86.2         | -31.7         | -328.6             | -395.8          |
| Colombia           | -16.5         | -16.4         | -22.6         | +21.9         | -106.0             | -66.2           |
| Ecuador            | +6.3          | +0.3          | +0.3          | -3.6          | +15.9              | -2.5            |
| Mexico             | +13.6         | +59.6         | +87.3         | +69.8         | +184.2             | +316.7          |
| Paraguay           | +1.3          | +2.6          | +5.7          | +11.3         | +31.7              | +35.5           |
| Peru               | +8.9          | -55.2         | -43.6         | -41.2         | +20.6              | -230.1          |
| Uruguay            | -40.6         | -27.6         | -31.8         | -43.0         | -158.4             | -156.3          |
| Venezuela          | +174.0        | +187.2        | +202.5        | +146.8        | +874.9             | +922.6          |
| Costa Rica         | -4.2          | -23.6         | -26.3         | -32.9         | -9.8               | -96.0           |
| El Salvador        | -2.5          | -2.0          | -3.4          | +0.3          | -58.8              | -7.9            |
| Guatemala          | -2.7          | +28.8         | +24.1         | +28.5         | -10.6              | +102.7          |
| Honduras           | +1.6          | -15.3         | -27.0         | -45.6         | -1.3               | -118.8          |
| Nicaragua          | -4.6          | -35.3         | -24.8         | -17.0         | -62.8              | -144.1          |
| Cuba               | -6.3          | +0.5          | +0.1          | +0.1          | -17.2              | +1.5            |
| Dominican Republic | -             | -10.2         | -10.0         | -14.2         | -3.5               | -39.8           |
| Haiti              | -             | +0.4          | -             | -             | -                  | +0.4            |
| Panama             | +29.8         | -8.8          | -28.3         | -22.8         | +23.3              | -79.9           |
| <u>Total</u>       | <u>+235.5</u> | <u>-376.4</u> | <u>+351.9</u> | <u>+306.7</u> | <u>+1 311.3</u>    | <u>+1 694.7</u> |

Source: IMF, Direction of Trade and official foreign trade statistics.

Note: Balances are determined on the basis of cif import values.

/The concentration

The concentration of trade in just a few countries - which is another characteristic of inter-Latin American trade - has also tended to become less marked as intra-regional trade has increased. In the early 1960s, Argentina, Brazil and Chile bought 68 per cent of the imports coming from the area and a similar percentage of exports was accounted for by Argentina, Brazil and Venezuela. Between 1961 and 1965, however, the average annual imports of the first three countries represented 59 per cent of total intra-regional imports, and this figure dropped to 50 per cent for the five-year period 1966-1970 (see table 3).

Trade among the member countries of the Central American Common Market (CACM) grew faster than that of the LAFTA countries. However, whereas CACM trade accounted for 18 per cent of the value of total inter-Latin American trade, that of LAFTA - which centred on a small number of countries - represented around 73 per cent.

The share of intra-regional exports in total Latin American world exports rose from 8.7 per cent in 1961-1965 to 11.9 per cent in 1966-1970 (see table 4). The pattern was the same in nearly every country, although the actual increases varied. Only in Peru did the opposite occur, while the variation was negligible, there was no change in the shares of Honduras and the Dominican Republic. The latter country has hardly any trade with other Latin American markets.

One of the major objectives of the policy of trade and co-operation between Latin American countries is to build a larger market for manufactures produced in the region. Thus, while overall intra-regional trade roughly doubled in the last ten years, the trade in manufactures almost quadrupled <sup>14/</sup>, although it admittedly started from a fairly low absolute level.

The low level of trade in manufactures among Latin American countries compared with the region's imports shows what great scope there is for intra-area import substitution and for the continued expansion of regional trade in manufactured goods.

The figures for trade between the members of the three sub-regional groupings (see table 5) show the effects of the conflict between El Salvador and Honduras (see the 1969 figures for CACM), the improved trade among the LAFTA countries in 1970, and the steady increase in trade within the Andean group of countries, small though this may be in absolute terms.

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<sup>14/</sup> See table 1 of chapter II. The products covered by the term "manufactures" are those in sections 5 to 8 of the Standard International Trade Classification, with the exception of division 68.

Table 3

INTER-LATIN AMERICAN IMPORTS AND SHARES BY COUNTRIES

(Of import values and percentages)

| Country            | Annual average                |  |                               |  | 1968                          |  | 1969                          |  | 1970                          |  |
|--------------------|-------------------------------|--|-------------------------------|--|-------------------------------|--|-------------------------------|--|-------------------------------|--|
|                    | 1961-1965                     |  | 1966-1970                     |  | Mil<br>lions<br>of<br>dollars | Per<br>cent-<br>age of<br>the<br>total | Mil<br>lions<br>of<br>dollars | Per<br>cent-<br>age of<br>the<br>total | Mil<br>lions<br>of<br>dollars | Per<br>cent-<br>age of<br>the<br>total |
|                    | Mil<br>lions<br>of<br>dollars | Per<br>cent-<br>age of<br>the<br>total | Mil<br>lions<br>of<br>dollars | Per<br>cent-<br>age of<br>the<br>total |                               |  |                               |  |                               |  |
| Argentina          | 195.2                         | 20.7                                   | 306.5                         | 19.8                                   | 277.8                         | 18.4                                   | 368.7                         | 21.1                                   | 374.5                         | 20.3                                   |
| Bolivia            | 12.2                          | 1.3                                    | 22.7                          | 1.5                                    | 18.9                          | 1.3                                    | 27.4                          | 1.6                                    | 33.1                          | 1.8                                    |
| Brazil             | 235.9                         | 25.1                                   | 276.0                         | 17.8                                   | 292.2                         | 19.3                                   | 297.8                         | 17.1                                   | 322.0                         | 17.4                                   |
| Chile              | 124.7                         | 13.2                                   | 192.1                         | 12.4                                   | 181.8                         | 12.0                                   | 220.1                         | 12.6                                   | 191.7                         | 10.4                                   |
| Colombia           | 36.8                          | 3.9                                    | 66.2                          | 4.3                                    | 58.3                          | 3.9                                    | 79.3                          | 4.6                                    | 72.2                          | 3.9                                    |
| Ecuador            | 10.9                          | 1.2                                    | 26.2                          | 1.7                                    | 23.9                          | 1.6                                    | 31.3                          | 1.8                                    | 34.9                          | 1.9                                    |
| Mexico             | 21.5                          | 2.3                                    | 56.2                          | 3.6                                    | 50.8                          | 3.4                                    | 62.4                          | 3.6                                    | 78.5                          | 4.2                                    |
| Paraguay           | 10.0                          | 1.1                                    | 16.2                          | 1.0                                    | 17.0                          | 1.1                                    | 17.3                          | 1.0                                    | 17.7                          | 1.0                                    |
| Peru               | 61.8                          | 6.6                                    | 105.9                         | 6.8                                    | 108.6                         | 7.2                                    | 106.6                         | 6.1                                    | 109.5                         | 5.9                                    |
| Uruguay            | 49.1                          | 5.2                                    | 58.9                          | 3.8                                    | 51.8                          | 3.4                                    | 62.0                          | 3.6                                    | 75.8                          | 4.1                                    |
| Venezuela          | 31.7                          | 3.4                                    | 52.2                          | 3.4                                    | 45.2                          | 3.0                                    | 64.9                          | 3.7                                    | 77.5                          | 4.2                                    |
| Costa Rica         | 13.8                          | 1.5                                    | 59.9                          | 3.9                                    | 65.6                          | 4.3                                    | 68.0                          | 3.9                                    | 86.2                          | 4.7                                    |
| El Salvador        | 39.0                          | 4.1                                    | 73.0                          | 4.7                                    | 82.5                          | 5.5                                    | 75.5                          | 4.3                                    | 72.1                          | 3.9                                    |
| Guatemala          | 24.8                          | 2.6                                    | 58.9                          | 3.8                                    | 50.9                          | 3.4                                    | 64.5                          | 3.7                                    | 78.5                          | 4.2                                    |
| Honduras           | 15.9                          | 1.7                                    | 50.5                          | 3.2                                    | 49.9                          | 3.3                                    | 55.5                          | 3.2                                    | 70.6                          | 3.8                                    |
| Nicaragua          | 18.4                          | 1.9                                    | 57.9                          | 3.7                                    | 62.6                          | 4.1                                    | 57.2                          | 3.3                                    | 68.0                          | 3.7                                    |
| Cuba               | 8.4                           | 0.9                                    | ...                           | ...                                    | ...                           | ...                                    | ...                           | ...                                    | ...                           | ...                                    |
| Dominican Republic | 2.1                           | 0.2                                    | 8.9                           | 0.6                                    | 10.8                          | 0.7                                    | 11.5                          | 0.7                                    | 15.7                          | 0.8                                    |
| Haiti              | ...                           | ...                                    | ...                           | ...                                    | ...                           | ...                                    | ...                           | ...                                    | ...                           | ...                                    |
| Panama             | 29.4                          | 3.1                                    | 61.8                          | 4.0                                    | 61.8                          | 4.1                                    | 72.8                          | 4.2                                    | 70.9                          | 3.8                                    |
| <b>Total</b>       | <b>941.6</b>                  | <b>100.0</b>                           | <b>1 555.0</b>                | <b>100.0</b>                           | <b>1 510.4</b>                | <b>100.0</b>                           | <b>1 742.8</b>                | <b>100.0</b>                           | <b>1 849.4</b>                | <b>100.0</b>                           |

Source: IMF, Direction of Trade and official foreign trade statistics.

Table 4  
SHARE OF INTRA-REGIONAL EXPORTS IN THE TOTAL EXPORTS OF THE REGION  
(Fob export values)

| Country             | 1961-1965     |                |                      | 1966-1970      |                 |                      | 1970           |                 |                      |
|---------------------|---------------|----------------|----------------------|----------------|-----------------|----------------------|----------------|-----------------|----------------------|
|                     | Latin America | World          | Percent age of total | Latin America  | World           | Percent age of total | Latin America  | World           | Percent age of total |
| Millions of dollars |               |                |                      |                |                 |                      |                |                 |                      |
| Argentina           | 191.3         | 1 289.6        | 14.8                 | 323.4          | 1 562.3         | 20.7                 | 369.1          | 1 773.2         | 20.8                 |
| Bolivia             | 3.7           | 96.9           | 3.8                  | 13.8           | 180.2           | 7.7                  | 16.3           | 211.1           | 7.7                  |
| Brazil              | 120.1         | 1 410.1        | 8.5                  | 222.6          | 2 065.4         | 10.8                 | 309.2          | 2 738.9         | 11.3                 |
| Chile               | 52.8          | 579.1          | 9.1                  | 102.5          | 1 001.3         | 10.2                 | 160.6          | 1 253.3         | 12.8                 |
| Colombia            | 15.9          | 486.4          | 3.9                  | 53.6           | 581.1           | 9.2                  | 94.8           | 722.9           | 13.1                 |
| Ecuador             | 9.8           | 118.8          | 8.2                  | 15.8           | 168.8           | 9.4                  | 17.3           | 241.5           | 8.6                  |
| Mexico              | 50.6          | 984.9          | 5.1                  | 102.8          | 1 271.5         | 8.1                  | 122.1          | 1 370.1         | 8.9                  |
| Paraguay            | 12.4          | 42.3           | 29.3                 | 18.2           | 52.2            | 34.9                 | 24.5           | 64.1            | 38.2                 |
| Peru                | 56.0          | 582.2          | 9.6                  | 55.4           | 863.7           | 6.4                  | 66.4           | 1 048.3         | 6.3                  |
| Uruguay             | 13.0          | 172.7          | 7.5                  | 24.3           | 191.1           | 12.7                 | 29.3           | 232.7           | 12.6                 |
| Venezuela           | 187.9         | 2 632.0        | 7.1                  | 246.8          | 2 997.7         | 8.2                  | 247.6          | 3 204.9         | 7.7                  |
| Costa Rica          | 10.5          | 96.4           | 10.9                 | 40.9           | 174.9           | 23.4                 | 54.5           | 230.6           | 23.6                 |
| El Salvador         | 29.4          | 155.2          | 18.9                 | 74.7           | 208.5           | 35.8                 | 74.2           | 228.9           | 32.4                 |
| Guatemala           | 18.9          | 143.9          | 13.1                 | 75.2           | 241.9           | 31.1                 | 106.0          | 290.2           | 36.5                 |
| Honduras            | 15.2          | 90.7           | 16.8                 | 26.4           | 163.6           | 16.1                 | 25.2           | 169.6           | 14.9                 |
| Nicaragua           | 6.2           | 108.0          | 5.7                  | 28.9           | 156.0           | 18.5                 | 48.3           | 178.6           | 27.0                 |
| Cuba                | 4.7           | 617.5          | 0.8                  | ...            | ...             | ...                  | ...            | ...             | ...                  |
| Dominican Republic  | 1.2           | 157.3          | 0.8                  | 0.8            | 170.6           | 0.5                  | 1.4            | 213.6           | 0.7                  |
| Haiti               | ...           | 39.3           | ...                  | ...            | ...             | ...                  | ...            | ...             | ...                  |
| Panama              | 1.4           | 47.2           | 3.0                  | 16.9           | 94.5            | 17.9                 | 39.8           | 106.6           | 37.3                 |
| <u>Total a/</u>     | <u>796.3</u>  | <u>9 193.7</u> | <u>8.7</u>           | <u>1 443.0</u> | <u>12 145.3</u> | <u>11.9</u>          | <u>1 806.6</u> | <u>14 239.1</u> | <u>12.7</u>          |

Source: IMF, Direction of Trade and official foreign trade statistics.

a/ Excluding Cuba and Haiti.



Table 5

TRADE BETWEEN MEMBER COUNTRIES OF LAFTA, CACM AND  
THE ANDEAN GROUP, 1968, 1969 AND 1970

| Trade between member<br>countries of:          | 1968                            |  | 1969                            |  | 1970                            |  |
|--|---------------------------------|--|---------------------------------|--|---------------------------------|--|
|  | Millions<br>of<br>dollars<br>of | Percentage<br>of total<br>inter-Latin<br>American<br>trade | Millions<br>of<br>dollars<br>of | Percentage<br>of total<br>inter-Latin<br>American<br>trade | Millions<br>of<br>dollars<br>of | Percentage<br>of total<br>inter-Latin<br>American<br>trade |
| LAFTA  | 1 069.9                         | 71.5   | 1 304.8                         | 74.7   | 1 345.8                         | 71.8   |
| CACM   | 251.0                           | 16.8   | 249.0                           | 14.3   | 304.2                           | 16.2   |
| Andean Group                                   | 70.2                            | 4.7  | 98.1                            | 5.6  | 121.0                           | 6.5  |
| <u>Total inter-Latin American<br/>trade a/</u> | <u>1 497.2</u>                  | <u>100.0</u>   | <u>1 746.2</u>                  | <u>100.0</u>   | <u>1 874.8</u>                  | <u>100.0</u>   |

Sources: ECLA, on the basis of figures contained in IMF, Direction of Trade and official statistics.

a/ Trade between member countries of the Andean Group is also included under LAFTA. In addition to the trade of member countries of the sub-regional groupings listed, the intra-regional total includes data for the Dominican Republic and Panama. No data was available on Cuba and Haiti, and the member countries of CARIFTA were not taken into account.

## 6. Regional and subregional economic integration processes

### (a) The Latin American Free Trade Association (LAFTA)

Ten years after its creation, it is interesting - as far as available statistics permit - to examine the progress that has been achieved in promoting trade among the signatories of the Montevideo Treaty, to look at the most significant problems that have arisen, and to identify some trends in the integration process.

Intra-area trade declined in the years immediately preceding the entry into effect of the Montevideo Treaty, but subsequently grew steadily between 1962 and 1970, in the course of which time trade among the nine Contracting Parties (excluding Bolivia and Venezuela which only joined in 1968) virtually trebled, from 659 million dollars in 1961 to 2,327 million in 1970. With Bolivia and Venezuela included, the amount of trade rose from 2,074 millions dollars in 1968 to 2,578 million dollars in 1970. (see table 6).

From 1962 onwards, the intra-area trade of the Contracting Parties grew faster than their overall world trade. Table 7 shows how their intra-area trade increased from 6.1 per cent of world trade (imports plus exports) in 1961 to 10.4 per cent in 1970.

The evolution of the trade of the different categories of countries making up the LAFTA membership is shown in table 8, from which it is easy to see how intra-LAFTA trade predominates within each group, particularly in the case of the relatively less developed and the relatively more developed countries, whose total trade with Latin America practically coincides with their trade with the LAFTA area.

The growth of intra-area trade was accompanied by a diversification of its structure. The more recent changes in this cannot yet be evaluated, for lack of sufficient up-to-date information, but what is clear is that intra-area trade has come to include more and more industrial products - some involving complex technology - which used to be imported from outside the area, such as machinery, transport, equipment, office machines, electrical appliances and various manufactured articles. The most recent analysis which the LAFTA secretariat has made of the composition of imports of products covered by the trade liberalization programme relates to the period 1962-1967. During that time, total imports from LAFTA countries rose to 3,350 million dollars in value, of which raw materials accounted for 1,811 million (54 per cent), semi-processed products for 982 million (29 per cent) and processed products for 557 million (17 per cent).

Table 6  
 INTRA-AREA TRADE OF LAFTA COUNTRIES  
 (Millions of dollars)

| Year           | Area exports |                 | Area imports             |                 | Total area trade |                 | Index of total<br>1961 = 100 |               |
|----------------|--------------|-----------------|--------------------------|-----------------|------------------|-----------------|------------------------------|---------------|
|                | (1)          | (2)             | (1)                      | (2)             | (1)              | (2)             | (1)                          | (2)           |
| 1952           | 359          |                 | 449                      |                 | 808              |                 | 123                          |               |
| 1953           | 509          |                 | 525                      |                 | 1 034            |                 | 157                          |               |
| 1954           | 495          |                 | 539                      |                 | 1 034            |                 | 157                          |               |
| 1955           | 508          |                 | 574                      |                 | 1 082            |                 | 164                          |               |
| 1956           | 358          |                 | 408                      |                 | 766              |                 | 116                          |               |
| 1957           | 396          |                 | 441                      |                 | 837              |                 | 127                          |               |
| 1958           | 374          |                 | 403                      |                 | 777              |                 | 118                          |               |
| 1959           | 324          |                 | 355                      |                 | 679              |                 | 103                          |               |
| 1960           | 340          |                 | 375                      |                 | 715              |                 | 108                          |               |
| 1961           | 299          | 489             | 360                      | 588             | 659              | 1 077           | 100                          | 100           |
|                |              |                 | <u>Montevideo Treaty</u> |                 |                  |                 |                              |               |
| 1962           | 353          |                 | 420                      |                 | 773              |                 | 117                          |               |
| 1963           | 425          |                 | 506                      |                 | 931              |                 | 141                          |               |
| 1964           | 556          |                 | 645                      |                 | 1 201            |                 | 182                          |               |
| 1965           | 635          |                 | 771                      |                 | 1 406            |                 | 214                          |               |
| 1966           | 675          |                 | 782                      |                 | 1 457            |                 | 221                          |               |
| 1967           | 651          |                 | 760                      |                 | 1 411            |                 | 215                          |               |
| 1968           | 762          | 1 000           | 848                      | 1 074           | 1 610            | 2 074           | 244                          | 193           |
| 1969           | 919          | 1 182           | 1 021                    | 1 291           | 1 940            | 2 473           | 294                          | 230           |
| 1970 <u>a/</u> | 1 098        | 1 250 <u>b/</u> | 1 229                    | 1 328 <u>b/</u> | 2 327            | 2 578 <u>b/</u> | 353                          | 239 <u>b/</u> |

Source: IMF, Direction of Trade 1952-1957 and information from LAFTA statistical services based on data supplied by the Contracting Parties.

(1) Excluding Bolivia and Venezuela.

(2) Including Bolivia and Venezuela.

a/ Brought up to date by ECLA.

b/ The figures for Bolivia have been estimated on the basis of derived data.

Table 7

INTRA-AREA AND OVERALL TRADE OF LAFTA COUNTRIES

(Millions of dollars)

| Year | Exports             |                      |                              | Imports             |                      |                              | Exports + imports   |                      |                              |
|------|---------------------|----------------------|------------------------------|---------------------|----------------------|------------------------------|---------------------|----------------------|------------------------------|
|      | LAFTA               | Overall              | LAFTA<br>per<br>cent-<br>age | LAFTA               | Overall              | LAFTA<br>per<br>cent-<br>age | LAFTA               | Overall              | LAFTA<br>per<br>cent-<br>age |
| 1961 | 243                 | 4 790                | 6.2                          | 360                 | 6 023                | 6.0                          | 659                 | 10 813               | 6.1                          |
| 1962 | 353                 | 5 046                | 6.9                          | 420                 | 5 936                | 7.1                          | 773                 | 10 982               | 7.0                          |
| 1963 | 425                 | 5 463                | 7.8                          | 506                 | 5 671                | 8.9                          | 931                 | 11 134               | 8.4                          |
| 1964 | 556                 | 5 943                | 9.4                          | 645                 | 5 993                | 10.8                         | 1 201               | 11 936               | 10.1                         |
| 1965 | 635                 | 6 349                | 10.0                         | 771                 | 6 014                | 12.8                         | 1 406               | 12 363               | 11.4                         |
| 1966 | 675                 | 6 915                | 9.8                          | 782                 | 6 861                | 11.4                         | 1 457               | 13 776               | 10.4                         |
| 1967 | 650                 | 6 713                | 9.7                          | 760                 | 7 075                | 10.7                         | 1 411               | 13 788               | 10.2                         |
| 1968 | 1 000 <sub>a/</sub> | 10 326 <sub>a/</sub> | 9.7                          | 1 074 <sub>a/</sub> | 9 628 <sub>a/</sub>  | 11.2                         | 2 074 <sub>a/</sub> | 19 954 <sub>a/</sub> | 10.4                         |
| 1969 | 1 182 <sub>a/</sub> | 11 433 <sub>a/</sub> | 10.3                         | 1 291 <sub>a/</sub> | 10 570 <sub>a/</sub> | 12.2                         | 2 473 <sub>a/</sub> | 22 003 <sub>a/</sub> | 11.2                         |
| 1970 | 1 250 <sub>a/</sub> | 12 301               | 9.8                          | 1 328 <sub>a/</sub> | 11 938 <sub>a/</sub> | 11.1                         | 2 578 <sub>a/</sub> | 24 739 <sub>a/</sub> | 10.4                         |

Source: Information supplied by LAFTA statistical services.

a/ Including Bolivia and Venezuela.

Table 8  
EVOLUTION OF TRADE OF DIFFERENT GROUPS (CATEGORIES) OF LAFTA MEMBER COUNTRIES  
(Millions of dollars)

| Group of countries/Year                              | Fob exports to: |               |         | Cif imports from: |               |         |
|--|-----------------|---------------|---------|-------------------|---------------|---------|
|  | LAFTA           | Latin America | World   | LAFTA             | Latin America | World   |
| <u>Relatively less developed countries a/</u>        |                 |               |         |                   |               |         |
| Average 1961-1965                                    | 36.9            | 38.9          | 430.7   | 79.6              | 82.2          | 466.4   |
| Average 1966-1970                                    | 69.7            | 72.1          | 592.3   | 120.2             | 124.0         | 641.8   |
| 1968   | 61.8            | 62.4          | 591.2   | 106.4             | 111.6         | 640.5   |
| 1969   | 83.3            | 83.3          | 602.1   | 132.3             | 138.0         | 686.4   |
| 1970   | 87.3            | 87.4          | 709.4   | 158.2             | 161.5         | 741.3   |
| <u>Countries with inadequate domestic markets b/</u> |                 |               |         |                   |               |         |
| Average 1961-1965                                    | 265.9           | 312.6         | 4 279.7 | 230.0             | 255.0         | 2 848.3 |
| Average 1966-1970                                    | 351.4           | 458.3         | 5 433.8 | 401.0             | 416.4         | 3 745.7 |
| 1968   | 341.7           | 454.6         | 5 448.0 | 377.9             | 393.9         | 3 713.2 |
| 1969   | 394.5           | 510.7         | 5 666.4 | 459.8             | 470.9         | 3 948.8 |
| 1970   | 436.9           | 569.4         | 6 229.4 | 442.6             | 450.9         | 4 222.7 |
| <u>Relatively more developed countries c/</u>        |                 |               |         |                   |               |         |
| Average 1961-1965                                    | 338.5           | 362.0         | 3 684.6 | 442.6             | 452.6         | 3 886.6 |
| Average 1966-1970                                    | 613.5           | 648.8         | 4 899.2 | 618.8             | 638.7         | 5 383.0 |
| 1968   | 593.5           | 632.8         | 4 502.9 | 595.3             | 620.8         | 5 261.2 |
| 1969   | 705.1           | 742.1         | 5 291.2 | 709.3             | 728.9         | 5 918.8 |
| 1970   | 761.6           | 800.4         | 5 882.2 | 745.9             | 775.0         | 6 994.6 |

Source: Direction of Trade and official foreign trade statistics.

a/ Comprises Bolivia, Ecuador, Paraguay and Uruguay.

b/ Comprises Chile, Colombia, Peru and Venezuela.

c/ Comprises Argentina, Brazil and Mexico.

/Although all

Although all the Contracting Parties have increased their intra-area exports to a greater or lesser degree, their different growth rates have meant that in some cases negative trade balances with the other LAFTA countries have persisted or even deteriorated further (see table 9). This situation, which often has its origin in structural shortcomings which, at least in the short term, are difficult to correct, has given rise to long and difficult discussions within the Association as to how to apply the principles regarding reciprocity and equitable distribution of benefits accruing from the trade liberalization programme, and it has caused certain countries to balk at reducing tariffs any further.

Despite the dynamic development reflected in the trade figures for all the LAFTA countries as a whole and the considerable progress that has in fact been made, there are other areas, such as that of reciprocal payments, where several crucial problems have become accentuated in recent years, reaching crisis proportions in 1968. The difficulty was apparently resolved in 1969 by the signing of the Caracas Protocol <sup>15/</sup>, which modified certain basic undertakings under the Montevideo Treaty, and by the adoption of a Plan of Action which laid down time-limits for adopting decisions and making commitments on various matters and recommended the execution of appropriate studies and research. The following are some of the main features of the processes that have been taking place in LAFTA over the past few years:

(a) a decline in the number of concessions negotiated by the Contracting Parties within the selective tariff reduction scheme (see table 10 and 11);

(b) the failure to meet the deadline for implementing the second stage of the Common Schedule, and its consequent prolongation;

(c) the extension to 31 December 1980 of the transitional period scheduled under the Montevideo Treaty, during which the Contracting Parties are expected to liberalize a substantial proportion of their trade;

(d) the increasingly important part played in the liberalization programme by complementarity agreements, which have been the most dynamic element in the last three annual rounds of negotiations, where they were advocated in particular by the more advanced countries of the area; and

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<sup>15/</sup> Up to the end of 1971, Chile, Colombia, Peru and Uruguay had not yet ratified the Protocol.

Table 9  
TRADE BETWEEN LAFTA COUNTRIES

(Millions of dollars)

| Year        | Trade    | Argentina | Bolivia           | Brazil | Chile  | Colombia          | Ecuador           | Mexico | Paraguay | Peru  | Uruguay | Venezuela |
|-------------|----------|-----------|-------------------|--------|--------|-------------------|-------------------|--------|----------|-------|---------|-----------|
| 1952-1961a/ | Fob exp. | 145.4     |                   | 116.1  | 42.3   | 3.6               | 8.1               | 5.4    | 12.5     | 44.9  | 17.8    |           |
|             | Cif imp. | 158.5     |                   | 125.3  | 70.5   | 11.7              | 3.6               | 2.7    | 9.8      | 23.0  | 38.1    |           |
|             | Balance  | -13.1     |                   | -9.2   | -28.2  | -8.1              | 4.5               | 2.4    | 3.1      | 21.9  | -20.3   |           |
| 1957-1961a/ | Fob exp. | 130.6     |                   | 107.9  | 34.3   | 4.3               | 7.6               | 5.6    | 10.4     | 39.0  | 7.0     |           |
|             | Cif imp. | 138.3     |                   | 98.2   | 66.9   | 8.8               | 3.2               | 3.5    | 9.7      | 26.1  | 32.1    |           |
|             | Balance  | -7.7      |                   | 9.7    | -32.6  | -4.9              | 4.4               | 2.1    | 0.7      | 12.9  | -25.1   |           |
| 1959-1961a/ | Fob exp. | 133.4     |                   | 85.6   | 34.8   | 4.5               | 6.7               | 6.1    | 8.7      | 38.5  | 4.0     |           |
|             | Cif imp. | 113.3     |                   | 90.2   | 77.0   | 8.5               | 3.5               | 3.9    | 9.0      | 26.7  | 31.5    |           |
|             | Balance  | +20.1     |                   | -4.6   | -42.2  | -4.0              | 3.2               | 2.2    | -0.3     | 11.8  | -27.5   |           |
| 1961        | Fob exp. | 100.0     |                   | 95.2   | 34.8   | 6.1               | 7.5               | 7.9    | 9.9      | 31.5  | 5.8     |           |
|             | Cif imp. | 126.0     |                   | 45.2   | 94.0   | 10.4              | 4.1               | 4.1    | 9.8      | 31.8  | 34.5    |           |
|             | Balance  | -26.0     |                   | 50.0   | -59.7  | -4.1              | 3.4               | 3.8    | 0.1      | -0.3  | -28.7   |           |
| 1962        | Fob exp. | 141.4     |                   | 75.8   | 39.4   | 7.3               | 6.1 <sup>c</sup>  | 16.7   | 10.9     | 47.3  | 8.0     |           |
|             | Cif imp. | 103.2     |                   | 128.6  | 80.5   | 12.5 <sup>b</sup> | 3.9 <sup>b</sup>  | 6.1    | 6.0      | 45.2  | 34.0    |           |
|             | Balance  | 38.2      |                   | -52.8  | -41.1  | -5.2              | 2.2               | 10.6   | 4.8      | 3.6   | 26.0    |           |
| 1963        | Fob exp. | 185.0     |                   | 76.0   | 49.3   | 6.1               | 8.0               | 26.0   | 10.7     | 48.5  | 15.0    |           |
|             | Cif imp. | 101.6     |                   | 163.9  | 100.0  | 21.4              | 5.2               | 10.8   | 9.4      | 62.0  | 31.8    |           |
|             | Balance  | 83.6      |                   | -87.9  | -71.0  | -15.3             | 2.8               | 15.2   | 1.3      | -13.5 | -16.8   |           |
| 1964        | Fob exp. | 218.4     |                   | 132.8  | 54.5   | 11.1              | 11.1              | 34.0   | 14.8     | 64.1  | 15.0    |           |
|             | Cif imp. | 170.7     |                   | 168.0  | 128.9  | 33.1              | 7.6               | 17.3   | 11.5     | 58.9  | 49.3    |           |
|             | Balance  | 47.1      |                   | -35.2  | -74.4  | -22.0             | 5.3               | 16.7   | 3.3      | 5.2   | -34.3   |           |
| 1965        | Fob exp. | 231.1     |                   | 197.4  | 53.2   | 16.7              | 13.2              | 36.3   | 17.5     | 54.1  | 15.6    |           |
|             | Cif imp. | 255.7     |                   | 190.4  | 122.1  | 38.4              | 9.0               | 29.7   | 13.1     | 61.0  | 32.1    |           |
|             | Balance  | -24.6     |                   | 7.0    | -58.9  | -21.7             | 4.2               | 6.6    | 6.1      | -26.9 | -16.5   |           |
| 1966        | Fob exp. | 242.7     |                   | 181.5  | 53.7   | 29.1              | 12.5              | 56.7   | 20.0     | 52.3  | 26.8    |           |
|             | Cif imp. | 226.7     |                   | 167.0  | 138.4  | 56.0              | 8.3               | 33.7   | 14.2     | 91.5  | 46.8    |           |
|             | Balance  | 16.0      |                   | 14.5   | -84.7  | -26.9             | 4.2               | 23.0   | 5.8      | -39.2 | -19.2   |           |
| 1967        | Fob exp. | 271.4     |                   | 154.2  | 78.0   | 18.8              | 14.4              | 47.6   | 15.6     | 33.3  | 17.0    |           |
|             | Cif imp. | 212.0     |                   | 171.6  | 143.3  | 31.9              | 12.6              | 38.2   | 16.5     | 89.9  | 44.1    |           |
|             | Balance  | 89.4      |                   | -17.4  | -65.3  | -13.1             | 1.8               | 9.4    | -0.9     | -56.6 | -27.1   |           |
| 1968        | Fob exp. | 338.1     | 15.9              | 193.1  | 91.8   | 34.2              | 16.4              | 62.2   | 16.2     | 50.4  | 18.9    | 165.1     |
|             | Cif imp. | 275.3     | 18.9              | 276.7  | 178.1  | 48.0              | 20.5              | 42.9   | 16.8     | 107.8 | 42.0    | 47.1      |
|             | Balance  | -62.8     | -6.8              | -83.6  | -86.3  | -13.8             | -4.2              | +19.3  | -0.6     | -57.3 | 23.1    | +118.0    |
| 1969        | Fob exp. | 364.3     | 15.9 <sup>d</sup> | 254.1  | 114.1  | 54.7              | 17.1 <sup>d</sup> | 86.7   | 18.9     | 57.4  | 30.6    | 168.3     |
|             | Cif imp. | 365.9     | 26.7 <sup>d</sup> | 291.4  | 217.0  | 75.3              | 20.6 <sup>e</sup> | 51.9   | 17.1     | 106.2 | 58.2    | 61.5      |
|             | Balance  | -1.6      | -10.5             | -37.3  | -102.9 | -20.6             | -4.5              | +34.8  | +1.8     | -48.8 | 27.6    | +106.8    |
| 1970        | Fob exp. | 365.8     | 14.6 <sup>f</sup> | 302.9  | 152.0  | 49.2              | 17.3              | 92.5   | 24.5     | 64.6  | 29.2    | 137.3     |
|             | Cif imp. | 372.1     | 24.1 <sup>f</sup> | 309.8  | 188.5  | 58.8              | 34.8              | 63.9   | 17.6     | 109.0 | 74.5    | 74.6      |
|             | Balance  | -6.3      | -9.5              | -6.9   | -36.5  | -9.6              | -17.5             | +28.6  | +6.9     | -44.4 | -45.3   | +62.7     |

Source: Official statistical services of the Contracting Parties.

a/ Annual average.

b/ Colombia became an operative member of LAFTA in March 1962; its national schedule became effective from 1 April 1962.

c/ Ecuador entered LAFTA during the Second Conference (1962); its national schedule became effective from 1 January 1963.

d/ Estimates.

e/ Repetition of previous year's figures.

f/ Estimate based on derived data.

Table 10  
NUMBER OF CONCESSIONS NEGOTIATED BY THE CONTRACTING PARTIES  
IN THEIR NATIONAL SCHEDULES

| Country      | Year to which the national schedule applied |              |              |              |              |              |               |               |               |               |
|--------------|---|--------------|--------------|--------------|--------------|--------------|---------------|---------------|---------------|---------------|
|              | 1962  | 1963         | 1964         | 1965         | 1966         | 1967         | 1968          | 1969          | 1970          | 1971          |
| Argentina    | 414   | 1 072        | 1 280        | 1 363        | 1 537        | 1 621        | 1 717         | 1 839         | 1 867         | 1 870         |
| Bolivia      | -   | -            | -            | -            | -            | -            | 178           | 194           | 192           | 192           |
| Brazil       | 619   | 1 250        | 1 312        | 1 352        | 1 511        | 1 603        | 1 710         | 1 802         | 1 842         | 1 851         |
| Chile        | 343   | 833          | 864          | 872          | 894          | 917          | 959           | 970           | 972           | 973           |
| Colombia     | 268   | 619          | 704          | 714          | 745          | 751          | 766           | 777           | 777           | 777           |
| Ecuador      | -   | 1 714        | 1 677        | 1 680        | 1 685        | 1 689        | 1 697         | 1 720         | 1 718         | 1 718         |
| Mexico       | 268   | 607          | 727          | 802          | 937          | 1 030        | 1 090         | 1 173         | 1 194         | 1 206         |
| Paraguay     | 520   | 589          | 665          | 663          | 677          | 691          | 696           | 696           | 695           | 695           |
| Peru         | 227   | 299          | 355          | 364          | 392          | 406          | 424           | 470           | 434           | 494           |
| Uruguay      | 567   | 610          | 664          | 664          | 676          | 689          | 716           | 784           | 789           | 789           |
| Venezuela    | -   | -            | -            | -            | -            | -            | 434           | 444           | 478           | 484           |
| <b>Total</b> | <b>3 246</b>                                | <b>7 593</b> | <b>8 248</b> | <b>8 474</b> | <b>9 054</b> | <b>9 393</b> | <b>10 382</b> | <b>10 863</b> | <b>11 018</b> | <b>11 049</b> |

| Increase over previous year | 1963  | 1964 | 1965 | 1966 | 1967 | 1968 | 1969 | 1970 | 1971 |
|-----------------------------|-------|------|------|------|------|------|------|------|------|
|                             | 4 347 | 655  | 226  | 580  | 339  | 989  | 487  | 149  | 31   |

Percentage share of each Contracting Party in the overall total of concessions contained in national schedules effective on 1 January 1971

| Country   | Percent age | Country   | Percent age |
|-----------|-------------|-----------|-------------|
| Argentina | 16.9        | Ecuador   | 15.6        |
| Bolivia   | 1.8         | Mexico    | 10.9        |
| Brazil    | 16.7        | Paraguay  | 6.3         |
| Chile     | 8.8         | Peru      | 4.5         |
| Colombia  | 7.1         | Uruguay   | 7.2         |
|           |             | Venezuela | 4.3         |

Source: ECLA, on the basis of information supplied by LAFTA.



Table 11

TOTAL NUMBER OF CONCESSIONS GRANTED IN THE SPECIAL SCHEDULES

| Received by: | 1963         | 1964         | 1965         | 1966         | 1967         | 1968         | 1969         | 1970         | 1971         |
|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Bolivia      | -            | -            | -            | -            | -            | 379          | 401          | 401          | 401          |
| Ecuador      | 988          | 1 145        | 1 193        | 1 194        | 1 274        | 1 290        | 1 295        | 1 293        | 1 293        |
| Paraguay     | 4 634        | 4 792        | 4 805        | 4 861        | 4 906        | 5 143        | 5 203        | 5 208        | 5 209        |
| Uruguay      | -            | -            | -            | -            | -            | 138          | 261          | 293          | 293          |
| <u>Total</u> | <u>5 622</u> | <u>5 937</u> | <u>5 998</u> | <u>6 045</u> | <u>6 180</u> | <u>6 950</u> | <u>7 160</u> | <u>7 195</u> | <u>7 196</u> |

Source: ECLA, on the basis of information supplied by LAFTA.

(e) a tendency among the relatively less developed countries to concentrate their requests for concessions on a small number of high-priority products that correspond to their immediate export possibilities or are connected with export-oriented production projects.

The problems and trends that have come to light in the course of the operation of LAFTA clearly illustrate the basic positions adopted by two groups of countries within the Association: those that do not wish to depart essentially from the specific guidelines and mechanisms established under the Montevideo Treaty, and those that have been striving 16/ for an extension of the commitments assumed by the Contracting Parties to cover matters that are not restricted to customs arrangements and trade but are concerned with the planning of concerted action designed eventually to secure the joint programming of important sectors of productive economic activity. This latter group's insistence on the need to set up mechanisms for planned multinational action in order to achieve their objectives led to the formation of the Andean subregional group which is discussed later in this chapter.

(b) The Central American Common Market

The value of intra-area trade among the countries now forming the Central American Common Market rose from 10.3 million dollars in 1952 to 32.7 million in 1960 (see table 12), which represents an annual growth rate of 16.1 per cent. It is interesting to note that most of this trade was carried out under the free-trade system 17/.

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16/ Inter alia, by invoking the Declaration of the Presidents of America that was signed at Punta del Este in 1967.

17/ Partial free trade among the Central American countries came into being in 1951 on the basis of bilateral agreements and this system was expanded with the signing of the General Treaty in 1960, thus explaining the increased dynamism of intra-area trade following the entry into force of the Treaty.

Table 12  
CENTRAL AMERICA: INTRA-AREA TRADE (CIF), 1952-1970

| Year | Millions<br>of<br>dollars | Year               | Millions<br>of<br>dollars |
|------|---------------------------|--------------------|---------------------------|
| 1952 | 10.8                      | 1962               | 50.8                      |
| 1953 | 11.9                      | 1963               | 72.1                      |
| 1954 | 14.0                      | 1964               | 106.2                     |
| 1955 | 13.1                      | 1965               | 135.5                     |
| 1956 | 13.7                      | 1966               | 174.7                     |
| 1957 | 16.9                      | 1967               | 214.0                     |
| 1958 | 21.1                      | 1968               | 258.3                     |
| 1959 | 28.7                      | 1969               | 249.0                     |
| 1960 | 32.7                      | 1970 <sup>a/</sup> | 291.5                     |
| 1961 | 36.8                      |                    |                           |

Source: ECLA, The Central American Common Market and its recent problems,  
(E/CN.12/885).

<sup>a/</sup> Preliminary figures.

/Table 13

Table 13 shows that although intra-area trade has not completely lost its initial impetus, its spectacular annual growth rate of 33 per cent during the first five years of the 1960s dropped to 24 per cent between 1965 and 1968, levelled off in 1969 because of the conflict between El Salvador and Honduras and began to recover in 1970.

As regards the composition of intra-area trade, between 1960 and 1968 the value of the trade in manufactured goods rose from 22 to 223 million dollars, an average annual increase of 33.5 per cent <sup>13/</sup>, as a result of which the share of industrial products in intra-area trade attained 86 per cent in 1968 compared with 68 per cent in 1960. The share of traditional products (food, tobacco, beverages, textiles, clothing, footwear and leather products) in this trade declined, while the metal goods industries increased their share and that of intermediate goods (pulp and paper, chemicals, cork and petroleum products) remained steady.

Central American Common Market trade strategy has mainly been concerned with the substitution of imports coming from outside the area, as an extension of the limited process initiated by the countries of the area before the creation of the Common Market. The main instruments of the strategy have been the establishment of a uniform customs tariff and a free trade regime for the products of the area, but it has not been possible to achieve all the objectives of the strategy owing to the lack of effective machinery to promote the development of productive investment in new fields of interest to the area and thus enable further progress to be made in the policy of import substitution in respect of goods from outside the area.

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<sup>13/</sup> Preliminary data taken from the industrial survey carried out by SIECA in 1968.

Table 13  
CENTRAL AMERICA: INTRA-AREA TRADE, 1960-1970

| Year  | Central America | Guatemala |          |         | El Salvador |          |         | Honduras |          |         | Nicaragua |          |         | Costa Rica |          |         |
|---|-----------------|-----------|----------|---------|-------------|----------|---------|----------|----------|---------|-----------|----------|---------|------------|----------|---------|
|   |                 | Ex-ports  | Im-ports | Balance | Ex-ports    | Im-ports | Balance | Ex-ports | Im-ports | Balance | Ex-ports  | Im-ports | Balance | Ex-ports   | Im-ports | Balance |
| Thousands of Central American pesos, <i>cif</i> |                 |           |          |         |             |          |         |          |          |         |           |          |         |            |          |         |
| 1960  | 32 676          | 7 265     | 7 584    | -319    | 12 673      | 13 491   | -818    | 7 435    | 5 311    | 2 124   | 3 446     | 2 776    | 670     | 1 858      | 3 514    | -1 656  |
| 1961  | 36 806          | 10 315    | 8 867    | 1 448   | 14 448      | 14 663   | -215    | 8 294    | 6 353    | 1 941   | 1 771     | 2 877    | -1 106  | 1 978      | 4 046    | -2 068  |
| 1962  | 50 848          | 13 883    | 11 228   | 2 655   | 18 505      | 22 058   | -3 553  | 13 799   | 8 911    | 4 888   | 3 229     | 5 343    | -2 114  | 1 931      | 3 308    | -1 377  |
| 1963  | 72 098          | 20 773    | 14 176   | 6 597   | 28 684      | 27 944   | 740     | 13 972   | 15 258   | 714     | 4 214     | 7 353    | -3 139  | 4 455      | 3 817    | -638    |
| 1964  | 106 188         | 29 971    | 26 357   | 3 614   | 35 178      | 39 234   | -4 056  | 18 337   | 18 004   | 333     | 6 924     | 14 308   | -7 384  | 15 778     | 8 285    | 7 493   |
| 1965  | 135 503         | 38 377    | 31 530   | 6 847   | 46 159      | 42 406   | 3 753   | 22 200   | 25 480   | -3 280  | 9 872     | 21 395   | -11 523 | 18 895     | 14 692   | 4 203   |
| 1966  | 174 735         | 55 071    | 33 834   | 21 237  | 57 470      | 52 032   | 5 438   | 21 486   | 34 053   | -12 567 | 14 896    | 31 659   | -16 763 | 25 811     | 23 156   | 2 655   |
| 1967  | 213 958         | 65 690    | 42 104   | 23 586  | 75 172      | 54 506   | 20 666  | 23 526   | 40 754   | -17 228 | 18 582    | 42 373   | -23 791 | 30 988     | 34 221   | -3 233  |
| 1968  | 258 294         | 77 525    | 49 444   | 28 081  | 84 882      | 65 161   | 19 721  | 31 266   | 48 671   | -17 405 | 26 942    | 46 172   | -19 230 | 37 679     | 48 849   | -11 170 |
| 1969  | 249 014         | 83 700    | 51 400   | 32 300  | 74 822      | 60 205   | 14 617  | 22 125   | 43 973   | -21 848 | 31 684    | 42 216   | -10 532 | 37 749     | 51 220   | -13 471 |
| 1970 <sup>a/</sup>                              | 291 522         | 102 367   | 64 982   | 37 385  | 73 511      | 60 563   | 12 948  | 18 087   | 54 881   | -36 814 | 46 056    | 50 009   | -3 953  | 39 443     | 61 087   | -21 644 |
| Percentage annual growth rates                  |                 |           |          |         |             |          |         |          |          |         |           |          |         |            |          |         |
| 1961  | 12.6            | 42.0      | 16.9     |         | 14.0        | 8.7      |         | 11.6     | 19.6     |         | -48.6     | 3.6      |         | 6.5        | 15.1     |         |
| 1962  | 38.2            | 34.6      | 26.6     |         | 28.1        | 50.4     |         | 66.4     | 40.3     |         | 82.3      | 85.7     |         | -2.4       | -18.2    |         |
| 1963  | 41.8            | 49.6      | 26.3     |         | 55.0        | 26.7     |         | 1.3      | 48.8     |         | 30.5      | 37.6     |         | 130.7      | 15.4     |         |
| 1964  | 47.3            | 44.3      | 85.9     |         | 22.6        | 40.4     |         | 31.2     | 35.8     |         | 64.3      | 94.6     |         | 254.2      | 117.1    |         |
| 1965  | 27.6            | 28.0      | 19.6     |         | 31.2        | 8.1      |         | 21.1     | 41.5     |         | 42.6      | 49.5     |         | 19.8       | 77.3     |         |
| 1966  | 29.0            | 43.5      | 7.3      |         | 24.5        | 22.7     |         | -3.2     | 33.6     |         | 50.9      | 48.0     |         | 36.6       | 57.6     |         |
| 1967  | 22.4            | 19.3      | 24.4     |         | 30.8        | 4.8      |         | 9.5      | 19.7     |         | 24.7      | 33.8     |         | 20.1       | 47.8     |         |
| 1968  | 20.7            | 18.0      | 17.4     |         | 12.9        | 19.5     |         | 32.9     | 19.4     |         | 45.0      | 9.0      |         | 21.6       | 42.7     |         |
| 1969  | -3.6            | 8.0       | 4.0      |         | -11.8       | -7.6     |         | -29.2    | -9.6     |         | 17.6      | -8.6     |         | 0.2        | 4.9      |         |
| 1970  | 17.1            | 22.3      | 26.4     |         | -1.7        | 0.6      |         | -18.3    | 24.8     |         | 45.4      | 18.5     |         | 4.5        | 19.3     |         |

Source: SIECA, on the basis of official statistics; the figures for 1969 and 1970 were updated by ECLA.

<sup>a/</sup> Preliminary figures.

Among other

Among other factors that have slowed down the establishment of new industrial plants designed to produce for the regional market, mention may be made of the inadequate implementation of the system of integration industries and the special system for the promotion of production activities, the delays in the drafting and approval of an instrument to govern the so-called assembly industries, and the impossibility in practice of applying the agreement of fiscal incentives 19/, not to mention the structural and economic difficulties that have confronted some of the countries of the subregion. As in LAFTA, the problem of the uneven participation of the member countries in the integration process is a major source of concern to some of the Central American countries, especially in view of the high concentration of trade in two countries (Guatemala and El Salvador) and persistent imbalances in the trade of two others.

At the end of 1966 the Central American Common Market introduced a preferential system for Honduras 20/ with a view to promoting that country's industrial development and enabling it to secure a more equitable share of the fruits of integration. Except as regards certain aspects of infrastructure and financing, the measures adopted do not appear to have afforded in practice, the results that were hoped for, since imbalances and shortcomings persist in the development of the country's industry.

Trade and the pattern of relations among the Central American countries were seriously affected by the conflict between Honduras and El Salvador. The trade figures for the area recovered somewhat in 1970, but it cannot be said that the institutional relations disturbed by the conflict have returned to normal.

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19/ Several important industries, such as those producing petrochemicals-based fertilizers, certain chemicals and metal goods, were established in the area under trade liberalization schemes, but not in the light of integrated development programmes nor within the framework of the co-ordinating machinery provided for.

20/ See chapter VI.

(c) The Cartagena Agreement

The Andean Subregional Integration Agreement was signed in May 1969, and although it came into force on 16 October 1969, to all intents and purposes its effective application dates from the beginning of 1970. The short time that has elapsed since then makes it impossible to evaluate the results achieved or forecast the probable future evolution of the integration process on the basis of the trade figures. However, the figures given in tables 14, 15 and 16 show a persistent and steady increase in intra-area trade from 1960 onwards and, judging by certain preliminary data, this trend is likely to have been accentuated in 1971. In 1970, one-third of the Andean Group's exports to Latin America were directed to its own sub-region, and one-fourth of its Latin American imports came from within the sub-region.

Among the main decisions and measures put into effect up to now by the member countries of the Andean Group in response to the integration objectives contained in the Cartagena Agreement, mention may be made of the following:

- (a) The entry into force of the automatic linear liberalization programme and the elimination of non-tariff barriers;
- (b) The adoption of a minimum common external tariff which should lead to the establishment of a minimum sub-regional margin of preference;
- (c) The adoption and implementation of various measures designed to take account of the special situation of Bolivia and Ecuador 21/;
- (d) The approval of the lists of exceptions and of products reserved for sectoral agreements;
- (e) The immediate elimination of import duties on products not produced in the sub-region and products included in the first section of the Common Schedule of LAFTA; and
- (f) The approval of the common regime for foreign investments.

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21/ See chapter VI on the least developed among the developing countries.

Table 14

## ANDEAN GROUP: INTRA-AREA TRADE, 1960 AND 1966-1970

| Year                                  | Total Andean Group |          |          | Bolivia          |                  |          | Chile    |          |          | Colombia |          |          | Ecuador  |          |          | Peru     |          |          |
|---------------------------------------|--------------------|----------|----------|------------------|------------------|----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|
|                                       | Ex-ports           | Im-ports | Bal-ance | Ex-ports         | Im-ports         | Bal-ance | Ex-ports | Im-ports | Bal-ance | Ex-ports | Im-ports | Bal-ance | Ex-ports | Im-ports | Bal-ance | Ex-ports | Im-ports | Bal-ance |
| 1960                                  | 40.4               | 46.8     |          | 0.4              | 5.3              | -4.9     | 6.9      | 26.8     | -19.9    | 4.6      | 4.9      | 5.2      | 1.3      | 8.5      | +3.9     | 23.3     | 8.5      | +14.8    |
| 1966                                  | 66.4               | 82.4     |          | 3.1              | 4.0              | -0.9     | 10.1     | 25.1     | -15.0    | 15.9     | 18.8     | 11.6     | 7.4      | 27.1     | +4.2     | 25.7     | 27.1     | -1.4     |
| 1967                                  | 52.6               | 66.9     |          | 3.3              | 4.2              | -0.9     | 10.8     | 18.4     | -7.6     | 13.2     | 11.9     | 11.1     | 8.8      | 23.6     | +2.3     | 14.2     | 23.6     | -9.4     |
| 1968                                  | 60.4               | 71.4     |          | 3.7              | 4.5              | -0.8     | 10.0     | 20.4     | -10.4    | 17.4     | 17.4     | 12.2     | 10.7     | 18.4     | +1.5     | 17.1     | 18.4     | -1.3     |
| 1969                                  | 85.2               | 91.1     |          | 4.4              | 4.8              | -0.4     | 10.8     | 30.3     | -19.5    | 37.0     | 20.7     | 11.4     | 13.5     | 21.8     | -2.1     | 21.6     | 21.8     | -0.2     |
| 1970                                  | 112.4              | 133.7    |          | 4.6 <sup>a</sup> | 5.0 <sup>a</sup> | -0.4     | 18.7     | 33.7     | -15.0    | 55.8     | 26.0     | 11.7     | 24.6     | 44.4     | -12.9    | 21.6     | 44.4     | -22.8    |
| <u>Millions of dollars off</u>        |                    |          |          |                  |                  |          |          |          |          |          |          |          |          |          |          |          |          |          |
| <u>Percentage annual growth rates</u> |                    |          |          |                  |                  |          |          |          |          |          |          |          |          |          |          |          |          |          |
| 1960-1966                             | 8.6                | 9.9      |          | 41.0             | 4.6              |          | 6.5      | -1.1     |          | 23.0     | 25.0     | 14.3     | 33.5     | 21.5     |          | 2.0      | 21.5     |          |
| 1967                                  | -20.8              | -18.8    |          | 6.5              | 5.0              |          | 6.9      | -26.7    |          | -17.0    | -36.7    | 4.4      | 18.9     | -12.9    |          | -14.7    | -12.9    |          |
| 1968                                  | 14.8               | 6.7      |          | 12.1             | 7.1              |          | -7.4     | 10.9     |          | 31.8     | 46.2     | 9.9      | 21.6     | -20.0    |          | 20.4     | -20.0    |          |
| 1969                                  | 41.1               | 27.6     |          | 18.9             | 6.7              |          | 8.0      | 48.5     |          | 112.6    | 19.0     | -6.6     | 26.2     | 18.5     |          | 26.3     | 18.5     |          |
| 1970                                  | 31.9               | 46.8     |          | 4.5              | 4.2              |          | 73.1     | 11.2     |          | 50.8     | 25.6     | 2.6      | 82.2     | 103.6    |          | -        | 103.6    |          |

Source: ECLA, on the basis of official statistics; IIF, Direction of Trade 1960-1964, 1966-1970; LAFIA statistics.

a/ Estimate on the basis of derived figures.



Table 15

ANDEAN GROUP: INTRA-AREA TRADE AND TRADE WITH THIRD COUNTRIES

| Year                       | Exports fob  |                                |                 |             | Imports cif  |                                |                 |             |
|----------------------------|--------------|--------------------------------|-----------------|-------------|--------------|--------------------------------|-----------------|-------------|
|                            | Andean group | Other Latin American countries | Other countries | World total | Andean group | Other Latin American countries | Other countries | World total |
| <u>Millions of dollars</u> |              |                                |                 |             |              |                                |                 |             |
| 1960                       | 40.4         | 65.8                           | 1 452.6         | 1 558.8     | 46.8         | 104.3                          | 1 408.3         | 1 559.4     |
| 1966                       | 66.4         | 116.4                          | 2 261.1         | 2 443.9     | 82.4         | 296.3                          | 2 184.1         | 2 562.8     |
| 1967                       | 52.6         | 130.8                          | 2 350.8         | 2 534.2     | 66.9         | 320.7                          | 2 011.1         | 2 398.7     |
| 1968                       | 60.4         | 157.4                          | 2 507.0         | 2 724.8     | 71.4         | 317.2                          | 2 030.6         | 2 419.2     |
| 1969                       | 85.2         | 185.4                          | 2 607.4         | 2 878.0     | 91.1         | 373.3                          | 2 135.8         | 2 600.2     |
| 1970 <sup>a/</sup>         | 112.4        | 228.6                          | 3 085.1         | 3 426.1     | 133.7        | 308.5                          | 2 389.6         | 2 831.8     |
| <u>Percentages shares</u>  |              |                                |                 |             |              |                                |                 |             |
| 1960                       | 2.6          | 4.2                            | 93.2            | 100.0       | 3.0          | 6.7                            | 90.3            | 100.0       |
| 1966                       | 2.7          | 4.8                            | 92.5            | 100.0       | 3.2          | 11.6                           | 85.2            | 100.0       |
| 1967                       | 2.1          | 5.2                            | 92.7            | 100.0       | 2.8          | 13.4                           | 83.8            | 100.0       |
| 1968                       | 2.2          | 5.8                            | 92.0            | 100.0       | 3.0          | 13.1                           | 83.9            | 100.0       |
| 1969                       | 3.0          | 6.4                            | 90.6            | 100.0       | 3.5          | 14.4                           | 82.1            | 100.0       |
| 1970                       | 3.3          | 6.7                            | 90.0            | 100.0       | 4.7          | 10.9                           | 84.4            | 100.0       |

Source: ECLA, on the basis of official statistics; IMF, Direction of Trade 1960-1964, 1966-1970; LAFTA statistics.

<sup>a/</sup> Includes an estimate for Bolivia, based on derived figures.

/Table 16

Table 16

ANDEAN GROUP: VALUE AND STRUCTURE OF IMPORTS, BY ECONOMIC GROUPS, 1958, 1965 AND 1968

| Economic groups                                  | Thousands of dollars |                  |                  | Percentage shares |              |              |
|--|----------------------|------------------|------------------|-------------------|--------------|--------------|
|  | 1958                 | 1965             | 1968             | 1958              | 1965         | 1968         |
| <u>Total</u>                                     | <u>1 380 155</u>     | <u>2 100 255</u> | <u>2 412 011</u> | <u>100.0</u>      | <u>100.0</u> | <u>100.0</u> |
| 1. Non-durable consumer goods                    | 170 646              | 210 858          | 281 664          | 12.4              | 10.0         | 11.7         |
| 2. Durable consumer goods                        | 73 923               | 117 437          | 114 031          | 5.4               | 5.6          | 4.7          |
| 3. Fuels and lubricants                          | 63 687               | 73 196           | 72 478           | 4.6               | 3.5          | 3.0          |
| 4 and 5. Raw materials and intermediate products | 479 044              | 846 075          | 936 833          | 34.7              | 40.3         | 38.8         |
| 6. Construction materials                        | 80 580               | 54 410           | 62 483           | 5.8               | 2.6          | 2.6          |
| 7. Capital goods for agriculture                 | 36 868               | 46 444           | 47 690           | 2.7               | 2.2          | 2.0          |
| 8. Capital goods for industry                    | 320 952              | 488 718          | 528 625          | 23.3              | 23.3         | 21.9         |
| 9. Capital goods for transport                   | 144 930              | 229 798          | 354 198          | 10.5              | 10.9         | 14.7         |
| 10. Miscellaneous                                | 9 525                | 33 319           | 14 009           | 0.7               | 1.6          | 0.6          |

Source: ECLA, on the basis of official statistics.

/Some decisions

Some decisions remain to be taken regarding measures on such matters as the establishment of standards for multinational enterprises, the sectoral programming of industrial development, the harmonization of certain policies (trade, taxation, labour, etc.), the formulation of an indicative plan for agriculture, and the perfecting of financial and payments mechanisms. When these measures are adopted they will provide fresh impetus for the integration process and enable conclusions to be drawn regarding its final orientation.

The Andean Development Corporation 22/, which has an authorized capital of 100 million dollars, is an auxiliary mechanism of great importance, both for mobilizing domestic resources and for tapping external funds to be used in specific sub-regional investment projects, without prejudice to the activities of other financial agencies such as IDB and IBRD in this field. The operation of high-level bilateral mixed commissions would also appear to offer outstanding possibilities for the solution of certain problems and for the harmonization of positions with a view to promoting the more dynamic growth of the sub-regional integration process.

(d) The Caribbean Free Trade Association (CARIFTA)

The establishment of the Association in 1968 marked the first concerted effort by countries in the Caribbean to put into effect a programme of economic co-operation. The participating countries are Barbados, Guyana, Jamaica and Trinidad and Tobago and, as relatively less developed territories, Antigua, Dominica, Grenada, Montserrat, St. Kitts-Nevis-Anguilla, St. Lucia and St. Vincent. The aim of CARIFTA is the creation of a free-trade area through the immediate abolition of duties on all products except the items on a Reserved List, in respect of which duties are to be phased out gradually over five years by the larger CARIFTA members and over ten years by the relatively less developed territories.

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22/ Its members are Venezuela and the five countries of the Andean Group (Bolivia, Chile, Colombia, Ecuador and Peru).

/Although the

Although the short period that the Association has been in existence and the lack of data in some cases do not allow a comprehensive appraisal to be made of the results that trade liberalization has so far achieved, the figures for the four most developed members, which together have accounted for over 70 per cent of the total imports of the area, in recent years, show significant increases for the first two years of operation of CARIFTA, although the share of intra-area trade in the total trade of the participating countries is still small.

An important development in the process of integration was the establishment in 1970 of the Caribbean Development Bank, the members of which include the United States, Canada and the United Kingdom. The Bank's initial capital is 50 million dollars.

The prime objective of the Bank will be to contribute to the development of the member countries in the Caribbean and to strengthen economic co-operation and integration among them, having special regard to the needs of the relatively less developed members 23/.

(e) The East Caribbean Common Market (ECCM)

The seven relatively less developed members of CARIFTA agreed to set up the ECCM, which came into effect in mid-1968, in order to advance the process of integration among themselves. In addition to the elimination of duties and restrictions on trade between members, the agreement provides for the establishment of a uniform tariff and a common trade policy and the harmonization of policies and treatment in other key sectors. The adoption of the common external tariff allows the members of the ECCM to negotiate as a unit with the other members of CARIFTA.

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23/ A special fund of 10 million dollars provided by the United States, Canada and the United Kingdom will be used to finance the grant of loans on easy terms, with priority being given to the relatively less developed countries.

Chapter VI

THE LEAST DEVELOPED AMONG THE DEVELOPING COUNTRIES\*

1. General approach to the problem

The special situation of the developing countries which are least developed from the point of view of international economic relations has emerged as a key problem in deciding how to approach various questions related to world trade and the development. There is a general conviction that many developing countries, owing to shortcomings in their own structure or in the world trade situation, have not been and will not be capable in the near future of enjoying in a full and equitable manner the potential benefits of the measures and policies adopted or being prepared internationally with a view to aiding the developing countries as a whole.

It is this that the International Development Strategy has in mind when it refers to the need to adopt special measures to enable the least developed among the developing countries to overcome their "particular disabilities". In order to achieve this, measures and action programmes must be adopted at the national, sub-regional, regional and world levels, with the participation, where appropriate, of the international organizations and the developed countries. The international community has committed itself 1/ to make concerted efforts in the areas of trade, finance and technology with a view to achieving, inter alia:

- (i) the expansion and diversifications of the production structure of the least developed countries so as to enable them to share fully in the benefits created by international trade;

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\* The ECLA secretariat has been carrying out the studies requested by CECLA (Resolution 13/XII), in the light of discussions at the recent CECLA meeting in Bogotá. On an advance basis, the present chapter includes some preliminary considerations on the problem of the criteria for the identification of the least developed countries and the measures to aid these countries that could be taken at the world and regional levels, in the light of the experience acquired in the region under the existing agreements on economic integration and co-operation.

1/ General Assembly, Resolution 2626 (XXV).

/(ii) the

- (ii) the devotion of special consideration to problems concerning commodities of interest to these countries and the due protection of the interests of these countries in international commodity agreements;
- (iii) the inclusion in the general system of preferences of products of export interest to these countries, with special attention to problems whose solution will allow them to enhance their competitive position, and
- (iv) the intensification of sub-regional and regional co-operation between the developing countries, with backing from the developed countries in the form of technical assistance and appropriate financial and trade policy measures.

UNCTAD has taken an active part in the discussion of this problem ever since the first Trade and Development Conference in 1964, and it has taken systematic action to try to solve it, particularly since the adoption by UNCTAD II of Resolution 24 (II), which incorporated to a large extent the aspirations expressed by the developing countries as a whole in the Charter of Algiers. It was agreed in this resolution that "it should not be the objective of any special measures taken in favour of the least advanced developing countries to create discrimination among the developing countries, but to ensure due benefits for the least developed among them, so that all developing countries can gain equitable benefits" from the measures agreed upon.

The Trade and Development Board considered at its eleventh session the report of the ad hoc group of experts on special measures in favour of the least developed among developing countries, which had taken into account the report of the Committee for Development Planning and various material on the same subject compiled by the UNCTAD secretariat 2/. The experts, in accordance with the terms of reference in the Board's Resolution 68 (X), organized their activities in two directions:

- (i) the problem of the identification of the least developed among the developing countries, and
- (ii) the special measures to be taken in favour of the least developed countries.

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2/ Document TD/B/335, paragraphs 368 to 386.

The identification of the least developed among the developing countries is one of the most complex aspects of the problem, and it has not been completely solved despite the fact that it constitutes the key element in any programme of measures or concrete action. Resolution 24 (II) suggests that the least developed countries should be identified in the context of each special measure which might be taken in their favour. In accordance with this criterion, the first group of experts pointed out the difficulties inherent in giving an absolute definition of the concept of "least developed country", and suggested that this term should be interpreted in a relative sense <sup>3/</sup>. It does not exclude the possibility that some countries may be considered less developed in the context of any of the measures or sectors considered.

The Committee for Development Planning prepared a report <sup>4/</sup> which represents an important contribution in the matter of the identification of the least developed among the developing countries. While acknowledging that any attempt to select criteria and statistical indices for the classification of different countries is bound to be somewhat arbitrary, in view of the multi-dimensional complexity of economic and social development and the statistical inadequacies already noted, the Committee considered that, as a starting-point, the countries to be regarded as least developed should be those where the per capita gross domestic product was less than 100 dollars per annum, where the share of manufacturing in the total gross domestic product was 10 per cent or less, and where the literacy rate for persons of fifteen years or older was not more than 20 per cent. In borderline cases, it suggested, countries which had at least two of these three characteristics should be considered as "least developed". After re-considering the application of the method selected in some borderline cases, the Committee finally put forward a list of 25 countries as the "hard core" of the least advanced; of these, 16 were in Africa, 8 in Asia and Oceania and 1 in Latin America. The selection was based on the fact that, whatever the classification criteria adopted, these countries must be considered as the least developed. The experts' report adds that other developing countries might be in a relatively unfavourable situation within the context of some particular policy measure or some specific sector, while others might count as less developed within a specific geographical region and/or regional grouping of countries.

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<sup>3/</sup> For example, a country can be considered to be less developed at the regional integration level but not at the sub-regional level; likewise, it may be considered less developed within the framework of a specific agreement on basic commodities, but not in other connexions.

<sup>4/</sup> Document E/4990.

On the basis of the indices and criteria selected by the United Nations experts, the majority of the countries usually considered to be the least developed in the Latin American context would be ruled out a priori from the group of countries making up the "hard core" of the least developed countries of the world (see table 1).

Acknowledging the preliminary nature of the list of least developed countries prepared by the Committee for Development Planning, and agreeing that the criteria used by the experts needed to be improved, the Trade and Development Board decided at its eleventh session to adopt the initial list proposed and to revise it later in the light of the results of studies to be carried out in consultation with the regional economic commissions. The Board also requested the Secretary-General of UNCTAD to prepare, with the aid of a group of experts, a detailed, complete, and action-oriented programme in favour of the least developed countries, with a view to implementing insofar as this lay within UNCTAD's competence the appropriate proposals of the International Development Strategy. In confirmation of the scope of the Board's resolutions, the developing countries adopted in Lima an "Action Programme" which suggest that "In further work in the field of identification of the relatively disadvantaged countries, for whom appropriate measures should be promptly formulated in accordance with Conference Resolution 24 (II), account should also be taken, through consultations with the corresponding regional secretariats, of the studies and recommendations of the regional economic commissions, taking into account the special treatment that may already be accorded to these countries under regional and sub-regional agreements" 5/. In the same document, with reference to the urgent need for formulating a concrete action programme in favour of the least developed among the developing countries, the Group of 77 stressed that any special measures taken must be supplementary to the general measures applicable to all developing countries, and must not result in injury or prejudice to the interests of other developing countries. This policy definition implies the adoption of the criterion of the distribution of additional benefits rather than the criterion applied by some developed countries of granting discriminatory advantages in favour of specific developing countries to the disadvantage of others. The idea that the consensus of the developing countries must be obtained with regard to identification criteria and, later on, with regard to the adoption of an action programme in favour of the least developed countries represents an important conceptual advance, because previously, in the economic relations existing then between developed and developing countries, it was the developed countries which unilaterally decided on their policies and actions in favour of specific countries or geographical areas, thus creating discrimination which

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5/ Document MM/77/II/R.2/Add.19, paragraph 4.



Table 1

ECONOMIC INDICES FOR THE LEAST DEVELOPED COUNTRIES OF LATIN AMERICA

| Countries                   | Per capita GDP at market prices (dollars at 1960 prices) 1968 | Industrial GDP as percentage of total GDP at factor cost, 1970 a/ | Level of literacy (percentages) from censuses around 1960 | Annual rate of growth of GDP at market prices 1960-1968 | GDP at market prices (millions of dollars at 1960 prices) 1968 | Estimated population at 30 June 1968 (thousands of inhabitants) |
|-----------------------------|---|---|---|---|--|---|
| Bolivia                     | 203   | 13.2  | 32.1 b/   | 5.8   | 900.1  | 4 680   |
| Costa Rica                  | 560   | 19.6 c/   | 84.4  | 6.8   | 933.8  | 1 649   |
| Dominican Republic          | 229   | 14.0  | 64.5  | 2.9   | 928.5  | 4 029   |
| Ecuador                     | 314   | 16.6  | 67.5  | 4.5   | 1 767.4  | 5 695   |
| El Salvador                 | 351   | 17.1  | 49.0  | 6.3   | 1 130.6  | 3 266   |
| Guatemala                   | 351   | 14.0  | 37.9  | 5.2   | 1 720.5  | 4 864   |
| Haiti                       | 86  | 12.2  | 10.5 b/   | -0.2  | 428.1  | 4 671   |
| Honduras                    | 252   | 15.7  | 45.0  | 5.6   | 609.0  | 2 431   |
| Nicaragua                   | 375   | 15.9  | 49.8  | 7.3   | 713.2  | 1 842   |
| Panama                      | 675   | 17.3  | 76.7  | 8.0   | 886.4  | 1 372   |
| Paraguay                    | 290   | 18.6  | 73.7  | 4.7   | 654.0  | 2 231   |
| Uruguay                     | 692   | 22.3  | 89.4  | 0.2   | 1 950.4  | 2 818   |
| Barbados                    | 409 d/ e/ f/  | 9.5 e/  | ...   | 7.7 d/ e/   | 108.4 d/ e/ f/   | 252   |
| Guyana                      | 289 d/ e/ f/  | 11.6 e/   | ...   | 5.8 d/ e/   | 206.2 d/ e/ f/   | 719   |
| Jamaica<br>(current values) | 365 d/ e/ f/  | 13.5 e/   | 81.9  | 7.7 d/ e/   | 653.8 d/ e/ f/   | 1 913   |
| (constant values)           | 262 d/ e/   | 15.1  |   | 4.4 d/  | 470.0 d/ e/  |   |
| Trinidad and Tobago         | 766 e/  | 18.9 e/   | ...   | 7.3 e/  | 813.8 e/   | 1 021   |

Source: ECLA, on the basis of official statistics; United Nations, Demographic Yearbook 1968; Statistical Bulletin for Latin America, Vol. VII, N° 12.

a/ Production sectors including: agriculture, forestry and fishing; mining and quarrying; manufacturing and construction industries.

b/ 1950 census.

c/ Including mining and quarrying.

d/ Estimates on the basis of GDP at factor cost.

e/ Estimates on the basis of current values in national currency

f/ Current values in national currency were expressed in dollars at current prices on the basis of the official rate of exchange prevailing in 1968.

g/ Values in national currency at 1960 prices were expressed in 1960 dollars, using the official rate of exchange prevailing in that year.

/was not

was not in keeping with an equitable understanding between developing countries and introduced disturbing factors militating against the unity and cohesion which are indispensable to the achievement of the aims put forward by the developing countries since the first UNCTAD.

At its last session, the General Assembly adopted a resolution 6/ approving the list of the twenty-five least developed countries (hard core) proposed by the Committee on Development Planning and requesting the Secretary-General of UNCTAD to prepare a detailed and comprehensive action programme aimed at ensuring the implementation of the proposals made in favour of the least developed countries in the International Development Strategy. At the same time, the General Assembly requested the various agencies and programmes of the United Nations (including UNDP and UNIDO) to initiate similar programmes in their respective fields of competence and called upon the other international organizations to take particular account of the special needs of the least developed countries in formulating their programmes of activities and selecting projects for financing.

In the light of the debates in the Second Committee of the General Assembly, it was agreed that the list of approved countries should be considered only tentative and that the criteria applied by the Committee on Development Planning should be reviewed. It was also agreed that it was a matter of urgent importance to analyse and define other suitable criteria for the identification of the least developed countries with a view to the possible modification of the approved list of countries as soon as possible.

## 2. Identification at the international and regional levels

The strict application of the indices selected by the Committee on Development Planning would exclude a considerable number of Latin American countries from the "hard core" least developed countries. There are, however, other factors which would justify the inclusion of new indices taking account of such criteria as: inadequacy of natural resources, smallness of domestic markets, exaggerated dependence on external trade, dependence on a single product or export, marked predominance of the agricultural sector, or low level of industrialization. Table 2 gives some additional statistical indices which reflect the above features and the problems inherent in a state of under-development.

6/ Resolution 2768 (XXVI).

/Table 2

Table 2

## SELECTED INDICES OF RELATIVELY LESS DEVELOPED LATIN AMERICAN COUNTRIES

| Country             | Total GDP<br>(millions<br>of dollars<br>at 1960<br>prices)<br>1970 | Per capita<br>GDP<br>(dollars<br>at 1960<br>prices)<br>1970 | Annual<br>rate of<br>growth<br>of GDP<br>1965-1970 | Annual<br>rate of<br>growth<br>of per<br>capita<br>GDP<br>1965-1970 | Industrial<br>GDP as per<br>centage of<br>GDP of sec-<br>tors of<br>produc-<br>tion <u>a/</u><br>1970 | Agricul-<br>tural GDP<br>as percent-<br>age of<br>sectors<br>of produc-<br>tion <u>a/</u><br>1970 | Rate of<br>growth<br>of popu-<br>lation<br>(per-<br>centage)<br>1963-1968 | Rate of<br>growth<br>of<br>exports<br>(annual<br>percent-<br>age)<br>1966-1970 |
|---------------------|--|---|--|---|---|---|---|--|
| Bolivia             | 935.2  | 201   | 6.0  | 2.1   | 24.1  | 41.8  | 2.6   | 8.8  |
| Costa Rica          | 953.9  | 530   | 7.2  | 3.2   | 40.7 <u>b/</u>  | 49.0  | 3.4   | 13.5   |
| Dominican Republic  | 925.6  | 213   | 6.6  | 3.1   | 11.5  | 55.1  | 3.6   | 11.9   |
| Ecuador             | 1 807.2  | 300   | 4.8  | 1.3   | 30.5  | 57.2  | 3.4   | 9.9  |
| El Salvador         | 1 120.0  | 325   | 4.7  | 1.3   | 35.6  | 57.0  | 3.7   | 4.5  |
| Guatemala           | 1 777.2  | 343   | 5.2  | 2.2   | 33.0  | 62.4  | 3.1   | 6.4  |
| Haiti               | 416.9  | 80  | 1.6  | -0.4  | 17.9  | 78.4  | 2.0   | 1.8  |
| Honduras            | 602.4  | 233   | 5.6  | 2.1   | 27.8  | 58.3  | 3.4   | 3.8  |
| Nicaragua           | 714.4  | 353   | 4.4  | 1.4   | 31.8  | 57.8  | 3.6   | 5.9  |
| Panama              | 949.5  | 675   | 7.8  | 4.3   | 38.8  | 45.2  | 3.3   | 7.9  |
| Paraguay            | 658.3  | 272   | 4.1  | 0.6   | 33.2  | 60.8  | 3.2   | 6.5  |
| Uruguay             | 1 988.3  | 688   | 1.5  | 0.2   | 7.3   | 44.6  | 1.2   | 5.7  |
| Barbados            | 130.6 <u>c/</u>  | 484 <u>c/</u>   | 10.5 <u>c/</u>                                     | 9.3 <u>c/</u>   | 26.9 <u>c/</u>  | 47.6 <u>c/</u>  | 1.3   | 0.0  |
| Guyana              | 237.8 <u>c/</u>  | 314 <u>c/</u>   | 7.7 <u>c/</u>                                      | 4.6 <u>c/</u>   | 22.2 <u>c/</u>  | 39.8 <u>c/</u>  | 3.0   | 4.6  |
| Jamaica             | 495.2  | 213   | 4.3  | 2.9   | 34.0  | 19.7  | 2.4   | 5.4  |
| Trinidad and Tobago | 830.9 <u>c/</u>  | 736 <u>c/</u>   | 6.5 <u>c/</u>                                      | 6.5 <u>c/</u>   | 36.2 <u>c/</u>  | 14.8 <u>c/</u>  | 2.0   | 2.9  |

Source: ECLA, on the basis of official statistics.

a/ Sectors of production including agriculture, forestry and fishing; mining and quarrying; manufacturing and construction industries.

b/ Including mining and quarrying.

c/ Estimated on the basis of current values in domestic currency of GDP at factor cost.

/In accordance

In accordance with the mandate expressly conferred upon it at the regional and the world levels to collaborate in the review of the criteria for the identification of the least developed among the developing countries and to offer suggestions for such criteria, the ECLA secretariat has been engaged in work on this topic and has been examining the main factors which impede or hinder the growth of the least developed countries, bearing in mind the levels of economic and social development achieved and, in particular, the capacity or potential of each country to rise above those levels. The preliminary results of its work were submitted to the CECLA meeting at the expert level in Bogotá at the end of March 1972. CECLA requested ECLA to continue its work in this field, and also requested the Secretary-General of UNCTAD to identify those developing countries that require special measures owing to comparative disadvantages in the context of specific policy measures or in certain key sectors, or that need special treatment within a geographical region or a regional grouping, and to submit a plan of action containing appropriate measures.

Some Latin American countries have peculiarities which should be taken into account when comparing them with other developing countries in the same region or in other geographical areas, owing to their lack of ability to take full advantage, at least in the short term, of benefits or measures already in force or being negotiated at the international level. Among these are:

(i) dependence on one or two basic export commodities, often controlled by international agreement. The interest of countries which are thus dependent should be given special attention in the context of the measures and policies for diversification envisaged by the international community, without prejudice to the possibility of their being given special treatment in specific commodity agreements of a kind that would not adversely affect the relative position of other developing countries or cause them damage or affect their trade interests;

(ii) inability on the part of some Latin American countries to make the most of the possibilities of access to the markets of developed countries opened up to them by the generalized system of tariff preferences, on account of their low level of industrialization. International assistance

/in this

in this matter could consist of the expansion of the scope of the system to include products which are at present outside it, or exemption of the least developed countries from the effects of the application of savings clauses. Concrete action, through the granting of supplementary financial resources and international technical assistance under satisfactory conditions, could also be taken to promote the establishment of competitive export industries with a sufficient degree of specialization to secure best possible mobilization of the resources of the countries in question.

(iii) inadequate participation in the benefits which the measures adopted in favour of the developing countries as a whole are supposed to provide. Such a situation could be put right by the application of other measures, particularly in the area of financial assistance.

The problem of relative under-development has for some considerable time been one of the basic matters of concern in the context of inter-Latin American relationships, especially where the promotion of regional and sub-regional economic co-operation and integration is concerned. The main line of action has been to try to help the least developed countries of the region to make the most of the benefits available under the integration schemes in which they participate, by applying differential treatment to make possible the achievement of common aims and an equitable distribution of benefits.

The report of a Working Group set up to study the bases for a Latin American regional market pointed out that "the less advanced countries must be accorded special treatment to enable them, through progressive industrialization and the overall strengthening of their economies, to share fully in the benefits of the regional market" 2/.

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2/ Bases for a Latin American Regional Market, Report of the Working Group of the ECLA Trade Committee, Santiago, Chile, 3-11 February 1958.

The Treaty of Montevideo contains the first proposals for granting special privileges and benefits to the least advanced countries, mainly in the field of trade. Collective action to promote programmes of financial and technical aid for such countries is also provided for 8/. At a later date, LAFTA 9/ identified a group of member countries whose common feature was that their domestic markets were inadequate for the development of certain industrial activities. LAFTA also approved the treatment of Uruguay as a country of relatively less economic development, owing to the fact that Uruguay was facing a very unfavourable economic situation 10/.

The need to grant preferential treatment to the less developed countries has been reiterated on a number of other occasions 11/.

To date, the Latin American countries have not been subjected to any rigorously technical classification with regard to their standard of development at the regional level, and it has been left to the system of integration to define the relatively least developed countries in their particular areas. The following conclusions can be drawn from this:

(a) the term "less developed" or "least developed" is essentially a relative and dynamic concept, to be defined according to the special features of each region or sub-region;

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8/ Chapter VIII of the Treaty of Montevideo, 18 February 1960.

9/ Resolution 71 (III): Situation of the countries with an inadequate market (21 November 1963).

10/ Conference of Foreign Ministers, held in Asunción, 1967, and Resolution 212 (VII).

11/ See, inter alia: Charter of Alta Gracia, 1964; Propuestas de la CECLA relativas al sistema de preferencias en favor de los países en desarrollo, Third Meeting at the Expert Level, Mexico City, 1966; Latin American Consensus of Viña del Mar, May 1969; CECLA, Special meeting at the ministerial level, Buenos Aires, July 1970.

/(b) basically,

(b) basically, the characteristic of relative under-development in this connexion is due to the lack of ability or potential on the part of specific countries to take full advantage of the opportunities offered by regional and sub-regional economic integration or co-operation and international trade, and

(c) in some cases the concept of relative under-development derives not only from structural differences, but also from the current economic situation in which a country has to operate.

As a result of various recommendations adopted by the Latin American Governments within ECLA <sup>12/</sup>, towards the end of 1967 a meeting of high-level Government representatives from the relatively less developed countries of the region was held in Guatemala to consider the problems facing those countries internationally and regionally, particularly with regard to the process of economic integration taking place in Latin America. The Guatemala meeting was attended by representatives of 13 of the 16 Latin American countries normally considered as being of relatively less economic development. The majority belong to one or more regional or sub-regional economic groups. Altogether, the countries had a population of 43.3 million inhabitants (1968), a surface of 2.8 million square kilometres, and represented 16.5 per cent of the population and 13.6 per cent of the total area of the region. Their gross domestic product at factor cost came to 14,543 million dollars in 1970, in other words, 10.9 per cent of the total gross domestic product of the region, while their industrial product amounted to 2,445 million dollars, or 7.6 per cent of the region's industrial produce. Exports and imports, came to 3,170 and 4,049 million dollars, respectively (21.5 and 26.4 per cent of Latin America's overall exports and imports). These figures show that the 16 countries as a whole have rather a low level of development and economic diversification and rather a high level of dependence on external trade.

Agricultural activities occupy an enormously important place in the economies of the relatively less developed Latin American countries; in some of them agriculture accounts for over a third of the total gross domestic product. In the less developed Latin American countries, agriculture is usually characterized by a low level of productivity, subsistence-level earnings, and difficulties in the assimilation of technological progress and new methods of cultivation. The figures in table 2 also show that the countries of relatively less development in Latin America have a low level

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<sup>12/</sup> Especially Resolution 254 (XI) adopted at its eleventh session.

/of industrialization,

of industrialization, a weak economic and social infrastructure, and an administrative system which often does not fulfil the requirements of the kind of system needed to maintain a sustained process of economic growth and social development.

Although the above-mentioned characteristics are common to the countries in question, the degree to which they apply in each country varies, so that there is distinct heterogeneity among the less developed countries of the region, making it necessary that global action should be accompanied by additional measures varied to suit the conditions prevailing in each country.

There are also marked differences in the evolution of these countries over the last ten years. While the majority show a relatively satisfactory rate of growth of the gross domestic product, in the remainder the rate is generally less than the minimum specified in the International Development Strategy for the Second Development Decade. All these individual characteristics and features must be considered at the regional and world level if an action programme is to be drawn up which will effectively meet the needs of the least advanced countries and ensure that the principle of the equitable distribution of benefits is respected. Latin America has great theoretical and practical experience in this context, and this experience could prove very valuable for other developing countries.

### 3. Latin American experience

#### (a) Instruments

When the drafters of the Montevideo Treaty set up a free trade area - the Latin American Free Trade Association (LAFTA) - as a first step towards economic integration, they foresaw from the very start the two fundamental problems that countries "at a relatively less advanced stage of economic development" would encounter in attempting to achieve harmonious and balanced development in step with the other Contracting Parties. Because of their smaller economic capacity, they would become extremely vulnerable to the competition of the other member countries as trade and tariff barriers were reduced; moreover, their relative shortage of economic, technical, financial and management resources would prevent them from taking full advantage of the opportunities provided by trade liberalization. Therefore, Chapter VIII of the Montevideo Treaty lays down measures in favour of countries at a relatively less advanced stage of economic development. These provisions, which have since been enlarged and complemented by numerous Conference resolutions, cover inter alia the following points:

/(i) Access



(i) Access to the regional market through the national schedules, but also through special lists of advantages not extended to other Contracting Parties;

(ii) Establishment of a scheme for the total elimination of duties and restrictions on imports from relatively less developed countries;

(iii) Granting of more flexible terms for compliance with the programme for the reduction and elimination of duties and non-tariff barriers;

(iv) Special saving clauses for the protection of domestic output, including that of products contained in the liberalization programme;

(v) Non-application of saving clauses by the other Contracting Parties to items on the special lists of advantages, or application only under special conditions;

(vi) Special terms for participation in sectoral agreements (advantages not extended to the other Contracting Parties and automatic extension of negotiated concessions, without any requirement for reciprocity), irrespective whether the less developed countries participated in the negotiations or acceded to the relevant agreements;

(vii) Financial and technical assistance from the other Contracting Parties and support in negotiating greater financial and technical co-operation from outside the area, either for the development of productive activities or for the execution of infrastructural work;

(viii) Studies and projects for identifying industries whose development is in the interest of the relatively less developed countries, and possible advance application of liberalization schemes so as to facilitate or ensure the establishment of such industries.

A study group on the relatively less developed countries was also set up within LAFTA to identify industries, set financial priorities, and formulate specific development projects at the area level.

The Central American Common Market (CACM), though consisting of five countries considered to be less economically developed in regional terms, provides for special treatment for Honduras in order to promote that country's industrial development and bring it more in line with the economic situation of the other countries. This provision, which covers

/the industrial

the industrial field, financial assistance, fiscal incentives and technical assistance, highlights the different levels of development that exist among countries which, taken together, can be described as less economically developed in regional terms.

In order to implement certain proposals contained in the Declaration of the Presidents of America of April 1967, a LAFTA-CACM Co-ordinating Committee was established to bring LAFTA and the Central American Common Market closer together.

The Cartagena Agreement, signed in May 1969, declares its fundamental purpose to be the promotion of the balanced and harmonious development of its members so as to facilitate their full participation in the integration process envisaged in the Montevideo Treaty. It accordingly provides for the adoption of a common strategy in order to reduce existing disparities between countries through the harmonization of economic and social policies designed to promote the formation of a sub-regional market, co-ordination of national development plans, joint programming of the industrial, agricultural, financial and infrastructural sectors, and the establishment of special treatment and measures for the less developed countries of the sub-region (Bolivia and Ecuador). With regard to trade, the Agreement provides that the products of Bolivia and Ecuador shall be given faster access to the sub-regional market and shall receive margins of preference that are not extended to other States, while retaining the exclusive advantages that were negotiated in LAFTA with other countries of the sub-region. In addition, it is provided that Bolivia and Ecuador shall be given more time to implement their liberalization programmes and to adopt the common external tariff, more extensive lists of exceptions, and more advantageous arrangements for harmonizing industrial development measures or other measures that have been or may be adopted in various fields of activity. Concessions are also given in respect of certain special regulations included in the system of common treatment for foreign capital.

Another aspect of the integration process of the signatories to the Cartagena Agreement is the establishment of the Andean Development Corporation, which is intended to provide financial assistance on preferential terms for the less developed member countries of the Agreement.

The Caribbean Free Trade Association (CARIFTA), established in May 1968 with the fundamental objective of eliminating intra-area trade barriers between its members, is another example of a group of countries which are relatively less developed in Latin American terms (though

/relatively more

relatively more developed in this small area), yet which grant special benefits to seven of the smaller CARIFTA members. These seven members, although less developed economically, have nevertheless attained a high level of co-ordination of their external trade policies so as to be able to negotiate as a unit with the other CARIFTA countries. Despite the favourable provisions that have been adopted for these relatively less developed members and the special treatment they receive from the Caribbean Development Bank, it is generally felt that, in order to promote their development, special measures will have to be taken to foster the development of existing industries and the creation of new manufacturing activities. This increase in production capacity is expected to be a medium and long term proposition, as regards both industrial and agricultural output.

(b) Application of preferential measures

In the field of trade, the relatively less advanced LAFTA countries seem for the most part to have achieved satisfactory growth rates of their exports to the area up to 1969, as can be perceived from the increase in their intra-area exports compared with their exports to the rest of the world. With the exception of Paraguay, however, their trade balances have so far been unfavourable, and this situation took a severe turn for the worse in 1970. The relatively less developed countries have drawn repeated attention to the slowness with which the other member countries are opening up their markets and to the uncertainty as to the future of certain concessions, which makes it impossible to formulate a clear policy with regard to investment in dynamic industrial sectors or to make the best use of their natural resources. They have also pointed to the limited diversification of their exports to the preferential area and to the small proportion of manufactures and semi-manufactures that they include (see table 3).

The less developed countries of Central America and the Caribbean have likewise boosted their intra-area and non-Latin American trade more than their trade with other Latin American countries not belonging to CACM or CARIFTA (see table 4).

Table 3

TRADE OF THE RELATIVELY LESS ADVANCED LAFTA COUNTRIES WITH THE OTHER CONTRACTING PARTIES

(Millions of dollars)

| Country                               | Annual average |              | 1968         | 1969         | 1970         |
|---------------------------------------|----------------|--------------|--------------|--------------|--------------|
|                                       | 1961-1965      | 1966-1970    |              |              |              |
| Bolivia (trade balance)               | -8.1           | -7.4         | -3.8         | -8.5         | -14.6        |
| Exports fob                           | 3.7            | 13.8         | 13.9         | 17.5         | 16.3         |
| Imports cif                           | 11.8           | 21.2         | 17.7         | 26.0         | 31.1         |
| Ecuador (trade balance)               | -1.7           | -9.8         | -4.2         | -14.8        | -17.6        |
| Exports fob                           | 9.0            | 15.5         | 16.3         | 16.2         | 17.3         |
| Imports cif                           | 10.7           | 25.3         | 20.5         | 31.0         | 34.9         |
| Paraguay (trade balance)              | +2.4           | +2.1         | -2.2         | +1.8         | +6.9         |
| Exports fob                           | 12.4           | 18.2         | 14.7         | 18.9         | 24.5         |
| Imports cif                           | 10.0           | 16.1         | 16.9         | 17.1         | 17.6         |
| Uruguay (trade balance) <sup>a/</sup> | -35.3          | -35.4        | -34.4        | -27.5        | -15.4        |
| Exports fob                           | 11.8           | 22.2         | 16.9         | 30.7         | 29.2         |
| Imports cif                           | 47.1           | 57.6         | 51.3         | 58.2         | 74.6         |
| <u>Total (trade balance)</u>          | <u>-42.7</u>   | <u>-50.5</u> | <u>-44.6</u> | <u>-49.0</u> | <u>-70.9</u> |
| Exports fob                           | 36.9           | 69.7         | 61.8         | 83.3         | 87.3         |
| Imports cif                           | 79.6           | 120.2        | 106.4        | 132.3        | 158.2        |

Source: Direction of Trade and official foreign trade statistics.

a/ Uruguay was declared to be temporarily in the category of the less developed countries in a resolution adopted at the sixty Conference of Foreign Minister (Asunción, 1967).

Table 4  
TRADE OF CACM AND CARIFTA COUNTRIES  
(Millions of dollars)

| Area/year      | Exports to: |               |         | Imports from: |               |         |
|----------------|-------------|---------------|---------|---------------|---------------|---------|
|                | Same area   | Latin America | World   | Same area     | Latin America | World   |
| <b>CACM</b>    |             |               |         |               |               |         |
| 1965           | 132.8       | 137.6         | 762.5   | 135.7         | 184.0         | 891.5   |
| 1966           | 172.1       | 177.8         | 845.8   | 175.6         | 229.2         | 936.9   |
| 1967           | 205.6       | 214.7         | 855.0   | 213.0         | 264.0         | 1 029.9 |
| 1968           | 247.1       | 262.1         | 954.1   | 251.0         | 311.5         | 1 045.1 |
| 1969           | 250.3       | 267.4         | 971.9   | 249.0         | 320.7         | 1 065.8 |
| 1970           | 293.8       | 308.2         | 1 097.9 | 293.4         | 375.4         | 1 229.0 |
| <b>CARIFTA</b> |             |               |         |               |               |         |
| 1965           | 48.6        | 17.7          | 778.4   | 47.3          | 191.4         | 1 017.0 |
| 1966           | 55.4        | 24.3          | 829.1   | 50.2          | 199.6         | 1 061.9 |
| 1967           | 55.5        | 20.6          | 842.7   | 51.4          | 222.1         | 1 056.8 |
| 1968           | 57.6        | 24.0          | 861.5   | 51.2          | 231.1         | 1 088.7 |
| 1969           | 70.7        | 28.1          | 909.9   | 63.0          | 219.0         | 1 235.9 |
| 1970           | 79.7        | 29.9          | 1 016.8 | 73.9          | 177.7         | 1 419.2 |

Source: Direction of Trade and official foreign trade statistics.

/As far

As far to the Andean Group, the fact that the process of programmed trade liberalization only really got under way in 1972 makes it impossible at this stage to draw any definite conclusions regarding the progress made from the point of view of trade. A number of measures regarding sub-regional integration that are of crucial importance to the relatively less developed countries of the Group have been adopted, however, including:

(a) total elimination of duties and restrictions and adoption of the common minimum external tariff for products included in the first section of the LAFTA common schedule (Bolivia and Ecuador are exempted from these commitments);

(b) determination of the starting point for reducing the tariffs of Chile, Colombia and Peru on products originating from Bolivia and Ecuador, which will be completely exempt from duty by 31 December 1973;

(c) establishment of planning, monetary and exchange, finance, fiscal policy, and foreign trade councils to facilitate the harmonization of policies and the co-ordination of plans of member countries;

(d) common treatment for foreign capital and for trade marks, patents, licences and royalties (with special terms and deadlines for Bolivia and Ecuador);

(e) list of products set aside for sectoral industrial development programmes;

(f) list of products not produced in the region nor set aside for sectoral programmes - trade in these products has been completely liberalized since 28 February 1971;

(g) list of products reserved for production in Bolivia and Ecuador that are not produced in any other country of the sub-region;

(h) list of products in which trade was completely liberalized for Bolivia and Ecuador on 1 January 1971, and establishment of a single common tariff for such products; and

(i) fixing of margins of preference for products of particular interest to Bolivia and Ecuador.

A number of resolutions and recommendations on financial matters adopted by Latin American countries have drawn the attention of international financial institutions to the need to increase the amount of financial and technical assistance granted to the relatively less developed countries of the region so as to promote the study and execution both of national or multinational infrastructural projects that are of special interest to such countries and of specific projects aimed at establishing industries or promoting activities connected with the regional market. It was partly due to this insistence by the countries of Latin America that the region's less developed countries received, with a few exceptions, a proportionately larger share of public and multilateral funds than they would have been expected to receive on a per capita basis. At the same time, it may be noted that the region's financial agencies have shown some concern at the shortage of projects and feasibility studies to which the increased amounts of "soft" funds available could be channeled in order to speed up the economic and social development of the less advanced countries. Thanks to multilateral technical assistance in the formulation of plans and projects and the partial or, in certain cases, total financing of preinvestment studies, however, this shortcoming has at least partly been overcome in recent years (see table 5).

On the whole, the terms under which Latin American countries received external public assistance, including multilateral co-operation from outside the region, during the period 1966-1970 show a bias in favour of the region's less developed countries, both as regards grace periods and amortization and as regards annual interest rates. As far as per capita volume of credit was concerned, countries at an intermediate stage of economic development obtained on average larger allocations than the least advanced countries, but the latter received far more than the most developed countries of the region. It must be borne in mind, moreover, that external financing was in fact considerably more costly for the more developed countries than appears from table 6 since, in the absence of sufficient bilateral or multilateral public resources to meet the financial requirements of their development process, they were obliged to make extensive use of supplier credits, whose terms continue to be a tremendous burden for developing countries. This in turn explains, why, as shown in chapter XI, the countries that suffer most from indebtedness are the more advanced countries, a substantial portion of whose export income has to be spent on amortization payments and interest on external commitments.

/Table 5

Table 5  
REGIONAL ASSISTANCE (MULTILATERAL PUBLIC FUNDS) RECEIVED BY THE  
LESS DEVELOPED COUNTRIES OF LATIN AMERICA

| Country  | Thousands of dollars |                |                |                |                    | Dollars per inhabitant |            |            |            |               |
|--|----------------------|----------------|----------------|----------------|--------------------|------------------------|------------|------------|------------|---------------|
|  | Average              | Average        | 1968           | 1969           | 1970 <sup>a/</sup> | Aver-                  | Aver-      | 1968       | 1969       | 1970          |
|  | 1961-<br>1965        | 1966-<br>1970  |                |                |                    | age                    | age        |            |            |               |
|  |                      |                |                |                | 1961-<br>1965      | 1966-<br>1970          |            |            |            | <sup>a/</sup> |
| Bolivia  | 22 207               | 34 019         | 37 547         | 27 083         | 530                | 5.4                    | 7.3        | 8.4        | 6.0        | 0.1           |
| Paraguay   | 8 565                | 19 622         | 13 400         | 43 414         | 4 200              | 4.5                    | 8.8        | 5.9        | 18.6       | 1.7           |
| Ecuador  | 23 360               | 23 847         | 1 500          | 27 184         | 58 500             | 4.9                    | 4.2        | 0.3        | 4.5        | 9.7           |
| Panama   | 12 924               | 18 457         | 15 830         | 18 620         | 12 700             | 11.1                   | 13.4       | 12.0       | 13.7       | 9.0           |
| Costa Rica   | 14 966               | 14 117         | 5 490          | 18 100         | 35 900             | 10.8                   | 8.6        | 3.4        | 10.7       | 20.7          |
| Honduras   | 8 753                | 10 876         | 17 050         | 8 200          | 4 700              | 4.1                    | 4.5        | 4.6        | 3.3        | 1.8           |
| El Salvador  | 12 455               | 8 052          | 8 930          | 24 300         | 5 000              | 4.6                    | 2.5        | 2.8        | 7.3        | 1.5           |
| Guatemala  | 6 545                | 34 438         | 78 600         | 39 200         | 23 000             | 1.6                    | 7.1        | 15.8       | 7.6        | 4.4           |
| Dominican Republic                                 | 18 206               | 43 522         | 73 455         | 24 045         | 14 411             | 5.4                    | 10.8       | 18.1       | 5.7        | 3.3           |
| Haiti  | 1 220                | 1 280          | -              | -              | 5 100              | 0.3                    | 0.3        | -          | -          | 1.0           |
| Nicaragua  | 14 947               | 16 198         | 35 846         | 7 155          | 12 490             | 9.7                    | 8.8        | 18.8       | 3.6        | 6.2           |
| Uruguay  | 8 680                | 25 035         | 33 475         | 17 000         | 5 025              | 3.3                    | 8.9        | 11.9       | 6.0        | 1.7           |
| <u>Total for less developed countries</u>          | <u>152 828</u>       | <u>249 463</u> | <u>315 123</u> | <u>253 981</u> | <u>181 906</u>     | <u>4.5</u>             | <u>6.3</u> | <u>8.0</u> | <u>6.2</u> | <u>4.3</u>    |
| More developed countries                           | 325 900              | 507 844        | 563 659        | 460 312        | 470 023            | 2.4                    | 3.2        | 3.5        | 2.8        | 2.8           |
| Countries at and intermediate stage of development | 310 880              | 370 469        | 386 506        | 310 225        | 274 479            | 7.0                    | 7.2        | 7.5        | 5.8        | 5.0           |

Source: United States Government, Forcing Credits, June 1970; IDB, Annual Report 1970; VS-AID, Statement of Loans June 31st. 1971.

<sup>a/</sup> Does not include the second half of the year in respect of allocations from Eximbank or those made under the law on development assistance for trade in agricultural products.



Table 6

AVERAGE TERMS FOR TOTAL EXTERNAL PUBLIC ASSISTANCE RECEIVED BY LATIN AMERICAN COUNTRIES

| Groups of countries                                     | Assistance received<br>1966-1970   |                  | Repayment period             |                 | Annual<br>interest<br>(percentage) |
|---|------------------------------------|------------------|------------------------------|-----------------|------------------------------------|
|   | Total<br>(Thousands<br>of dollars) | Per capita<br>a/ | Amorti-<br>zation<br>(years) | Grace<br>period |                                    |
| Less developed countries b/                             | 1 611.9                            | 42.1             | 22.29                        | 6.39            | 3.77                               |
| Countries at an intermediate stage<br>of development c/ | 2 664.6                            | 51.6             | 18.92                        | 5.50            | 4.78                               |
| More developed countries d/                             | 4 082.3                            | 25.5             | 17.97                        | 5.10            | 5.35                               |

Source: Same as table 5.

a/ Population at 31 December 1968.

b/ Comprises Bolivia, Paraguay, Ecuador, Panama, Costa Rica, Honduras, El Salvador, Guatemala, Dominican Republic, Haiti, Nicaragua and Uruguay.

c/ Comprises Chile, Colombia, Venezuela and Peru.

d/ Comprises Argentina, Brazil and Mexico.

/In terms

In terms of the source of official loans received by Latin America between 1966 and 1970 - a total of 8,358.8 million dollars - it will be seen from table 7 that the less developed countries received an increasing proportion of the soft credits (US-AID: 29 per cent; IDB special resources: 26.4 per cent; IDA: 100 per cent) and a smaller proportion of the regular credits (Eximbank: 13.7 per cent; IDB ordinary resources: 6.5 per cent; IBRD: 11.4 per cent).

As far as technical assistance is concerned, the criteria on which regional and international public and private co-operation has been based have favoured the relatively less developed countries of Latin America. Bilateral efforts have also been made in this respect by some of the more developed countries of the region. Equally important are the steps that have been taken within organizations for Latin American integration and co-operation (ICAP, IADB, ECLA, ILPES, LAFTA, Andean Group, Andean Development Corporation, River Plate Basin, etc.). Difficult though it is to measure the real volume of this aid, its effects are beginning to be felt in the quality of the projects that the less developed countries are now submitting to international credit agencies and in the internal administrative improvements which certain relatively less developed countries have adopted so as to pursue the process of reform and rationalization of their economic structures and improvement of social conditions.

For all this, the countries in question are still unsure how best to facilitate the transfer and assimilation of modern technology, which often provokes a confrontation between conflicting social and economic interests. Hence the desirability of encouraging more intensive multilateral efforts to help to close or at least prevent the widening of the technological gap between less advanced and more advanced countries within the same region and, even more, between the less advanced and the developed countries.

The problem is analysed in some detail in chapter XIII. It is absolutely essential that such an analysis, or the plans of action that may be adopted on behalf of the less developed countries, should incorporate specific proposals or measures for adoption at the regional or world level.

Table 7

SOURCE OF OFFICIAL LOANS AUTHORIZED FOR LATIN AMERICAN COUNTRIES

(Cumulative amounts, in millions of dollars, 1966-1970)

| Agency             | Groups of countries |                          |                | Total          |
|--------------------|---------------------|--------------------------|----------------|----------------|
|                    | Less developed      | Intermediate development | More developed |                |
| US-AID <u>a/</u>   | 645.3               | 754.8                    | 792.7          | 2 192.8        |
| EXIMBANK           | 166.4               | 481.1                    | 567.2          | 1 214.7        |
| IDB                |                     |                          |                |                |
| Ordinary resources | 53.6                | 201.7                    | 569.8          | 825.1          |
| Special operations | 422.2               | 498.4                    | 676.9          | 1 597.5        |
| IERD <u>b/</u>     | 280.0               | 700.3                    | 1 475.7        | 2 456.0        |
| IDA <u>b/</u>      | 72.7                | -                        | -              | 72.7           |
| <u>Total</u>       | <u>1 640.2</u>      | <u>2 636.3</u>           | <u>4 082.3</u> | <u>8 358.8</u> |

Source: IERD annual memorandum, 1970-1971.

a/ Includes the first half of 1971 for authorizations under the law on foreign aid.

b/ Includes the first half of 1971.

#### 4. Action programme and framework for action

##### (a) General considerations

The obstacles in the way of improving the living conditions of the developing countries in general and the least developed countries in particular, in order thus to reduce the gap that separates them from the industrialized countries, are undoubtedly of considerable magnitude, and substantial efforts are therefore required to overcome them.

The pattern of growth of the international economy has had a distinctive impact on the developing countries, especially on the least developed of them. The economic and cultural dependence of the developing areas has become more pronounced and has taken various different forms in the fields of science, technology, finance and the organization of production. The prevailing tendency since the 1950's has been for the gap to widen, both in relative and absolute terms, and it is perhaps in the field of science and technology that the least developed economies have fallen farthest behind the industrialized world and the rest of the developing countries, both because of the shortage of key personnel (cadres) or scientific and academic institutions, and because of modern industry, which is becoming increasingly complex with respect to financial and technical resources, size of markets and systems of organization, in nearly all cases continues to be beyond their grasp. In addition to the relative backwardness of the least developed countries, it is often the case that there are other circumstances limiting their chances of achieving a modicum of viability and balance in their development patterns, as well as relative disadvantages which affect their ability to benefit fully and equitably from international co-operation schemes or the more specific regional integration systems.

International aid should be designed to help the least developed among the developing countries to take action to overcome their particular disabilities. Although it is with the developing countries themselves that the main responsibility lies for promoting reforms of their economic and social structures, defining national development strategies, and imparting consistency to their domestic efforts by means of planning, it is up to the international community to put into effect concerted aid programmes of the type provided for in the International Development Strategy.

##### /(b) Identification

(b) Identification of the least developed among the developing countries

If international co-operation is to achieve satisfactory results, it must be a sustained effort extended over a long enough period to allow the least developed countries to carry out the necessary economic and social transformations in accordance with their special characteristics. Moreover, such co-operation should be extended to as many countries as possible, which implies the need to revise and expand the list of "hard core" least developed countries proposed by the Committee for Development Planning and accepted by the General Assembly.

So great is the importance in any proposed action programme of considering the particular characteristics of the individual least developed countries that the ad hoc Group of Experts convened pursuant to resolution 68 (X) of the Trade and Development Board stated in its report that it is important to "design an action programme for each of the least developed countries which takes into account its peculiar bottlenecks and disabilities and which is, to the extent feasible, in harmony with similar action programmes in other developing countries". In addition, the report points out that the growth potential of the least developed, as of the other developing countries, "will depend, in the first instance, on their capacity to mobilize their own domestic resources", although it considers that, in the initial stages of development, external resources must play a considerably more important role in dealing with certain particular disabilities such as: an extremely low level of income, deficiencies in basic institutions and infrastructure, and scarcity of skilled manpower. These characteristics are common to all the "hard core" least developed countries.

In view of the diverse characteristics of the least developed countries, even within each of the three categories mentioned earlier, what is required is not so much a specific plan of action with special measures for each of them as international agreement on a set of basic guidelines for action in their behalf at the world and regional levels and on the contributions that should be made by the international and intergovernmental organizations and agencies, the developed countries and the more developed among the developing countries in connexion with the various individual cases and the different types of specific measures to be undertaken. It goes without saying that measures recommended in favour of countries with sectoral disabilities should, in all cases, be extended to the "hard core" least developed countries, but measures designed to help relatively less developed countries within a particular region or sub-region should be extended to "hard core" countries only when these belong to the area in question.

/In addition

In addition to following the recommendations made by the experts who have been studying the problem of identifying the least developed among the developing countries, it is considered that the criteria used in such identification should apply at two levels: the world level and the regional level. If action were split up into these two categories it would be possible to achieve a more rational and flexible design and orientation of assistance by the international community to these countries.

At the world level, a distinction should be drawn between: (i) the countries which are least developed in all essential aspects, which would make up the hard core of this category: the indices used in defining these countries would include not only those considered by the Committee on Development Planning, but also others taking account of the current and future economic potential of the developing countries; and (ii) the countries suffering from sectoral disabilities, which, although they possess institutions and structures that should theoretically enable them to effect a sustained process of economic development, are seriously hampered in their ability to benefit from the application by the international community of the measures and policies laid down in the International Development Strategy.

At the regional and sub-regional level, a distinction should be drawn between those countries considered as relatively less developed in the context of a specific regional or sub-regional grouping and those countries which, because they are faced by serious problems due to the prevailing economic situation, qualify for temporary assistance in the regional or sub-regional context in order to provide them with similar advantages to those provided for the relatively less developed countries. By way of example, mention may be made of the inclusion of Uruguay among the relatively less developed countries receiving preferential treatment within LAFTA.

(c) Programme of action

The special measures to be taken at the world level in favour of the least developed among the developing countries should be supplementary to the general measures applicable to all the developing countries, and an attempt should be made to provide just and equitable benefits for the least developed countries without prejudice to the interests of the other developing countries. This principle was reiterated in the Declaration of

/Lima adopted

Lima adopted by the Group of 77, which also contains a broad programme of action and machinery for action in favour of the least developed countries in the fields of trade, financing and technical assistance 16/.

Any action programme adopted by the international community to assist the least developed countries should be based on co-ordinated, consistent and uniform systems, whose component parts are fully supported by firm commitments and definite time schedules so that the beneficiary countries know in advance the volume and characteristics of the external aid to be supplied and the length of time for which it will continue. Aid should also be channelled increasingly through multilateral machinery, both at the regional and sub-regional level, as well as at the world level.

Now that general principles for action have been established in the Strategy for the Second Development Decade, there is wide scope for defining, negotiating and devising instruments for specific action programmes in the trade, financial and technological fields.

As regards trade measures, it is well known that the least developed ("hard core") countries usually have difficulty, in the short term, in deriving benefits from the system of tariff preferences and from commodity agreements. Hence the importance of adopting trade policy measures designed to give those countries more rapid access to the markets of the developed countries for a broader range of products, through the elimination of duties on products of special interest to them and the establishment of adequate preference margins. In this connexion, the Action Programme approved by the Group of 77 in Lima points out the need to take special account of the situation of the least developed ("hard core") countries in commodity agreements, in such matters as the allocation of quotas and exemption from quota cuts, the payment of dues and taxes, and the question of the exemption of such countries from the requirement to participate in the financing of buffer stocks, bearing in mind the characteristics of each commodity and taking into account the interests of the other parties concerned. The Action Programme also stipulates that top priority should be given to the solution of the trade problems of the least developed countries in any multilateral negotiations that are effected, while such countries should be given special preferential treatment in connexion with measures to liberalize tariff and non-tariff barriers, the elimination of excise duties and the abandonment of price support policies by the developed countries.

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16/ See document TD/143, pp. 73 et seq.

As regards the "sectorally deficient" developing countries, consideration should be given, on a case-by-case basis, to the particular situations that may affect them in the context of commodity agreements in force or to be established. At the same time, within the generalized system of preferences, such countries could be granted longer periods of employment of the benefits of the system than those originally stipulated, the preferences could be expanded to cover processed and semi-processed agricultural and mineral products, more flexible conditions in the matter of rules of origin could be granted, and these countries could be exempted from the effects of saving clauses and the ceilings fixed by the preferential import quotas which have been established in some of the systems in force.

In order to bring the "hard core" least developed countries and the countries suffering from a low level of industrial development into the world trade in manufactures and semi-manufactures, impetus should be given to their industrial development and their basic infrastructure should be strengthened through technical and financial assistance, with special attention to the problem of non-tariff barriers, the need for changes in tariff classifications to permit the reduction or elimination of tariffs on handicraft products, and the correction of restrictive business practices which international enterprises tend to encourage when they channel investment funds into the development of specific branches of industry in both types of "least developed" country.

The recent negotiations between developing countries in GATT will also serve as a standard in the establishment of new forms of interregional trade co-operation between developing countries and, in particular, in dealing with the interests of the least developed countries at the world level and those of the relatively less developed countries at the regional level.

In the sphere of financial co-operation, the least developed countries should be assured of at least the minimum income of external funds necessary for the planning and execution of certain investments in the basic infrastructure, without which these countries would be unable to reach specific levels of economic and social development. Action in this field could include, inter alia: (i) the grant of interest-free loans with repayment periods of not less than fifty years and grace periods of ten years for investments in basic infrastructure (transport, communications, energy, ports, water supplies, etc.); (ii) the provision of additional financial assistance by the developed countries in the form of grants-in-aid or similar non-reimbursable contributions, on the basis of the fiscal revenue obtained by them from the application of customs duties on certain primary

/commodities such



commodities such as coffee, tea, tobacco, etc.; (iii) expansion of the capacity to absorb financial aid through free assistance in the preparation and execution of preinvestment plans and projects and feasibility studies and the non-reimbursable contribution of the counterpart funds that developing countries receiving financial assistance have to find.

There has been much discussion within UNCTAD of the idea of creating a special fund for the least developed countries, made up of additional financial and technical assistance resources supplied by the developed market-economy and socialist countries and even by some of the more advanced among the developing countries. Such resources would be channelled through financial institutions, economic commissions and regional development banks, and would be concentrated in high-priority sectors, at least so long as the resources available to the fund were not sufficient to meet all needs.

The countries classified as having sectoral weaknesses should receive technical and financial assistance similar to that proposed for the "hard core" least developed countries; such assistance should be designed to help such countries to overcome various sectoral imbalances, by such measures as programmes for the diversification and expansion of agricultural production; development of export industries best suited to the potential of each country; solution of problems connected with the sectoral infrastructure, etc.

In order to tackle the problems that the relatively less developed countries must face in the context of regional or sub-regional integration and economic co-operation schemes, it is considered that international financial assistance should be directed as far as possible through regional or sub-regional channels. In this way, the developed countries and international organizations would be in a better position to provide the financial and technical assistance required for the development and perfecting of such schemes. Such an approach would also ensure an equitable distribution of international financial and technical assistance among the different developing areas and facilitate the application of regional criteria in the provision of aid to the least developed countries in each area.

In this context, the more advanced among the developing countries could also help to solve the special problems hampering the growth of the least developed countries in their respective regions, mainly through financial and technical assistance designed to remedy the existing imbalance in development or through funds generated by the elimination of trade barriers between member countries of integration schemes. In this connexion,

/special regional

special regional systems of payments compensation could be adopted, providing for the granting of loans to level out persistent imbalances in intra-regional trade and special financing funds for the import of goods originating in the integration area concerned.

Specific technical assistance programmes, closely related with the trade and financial measures adopted, should be devised for the least developed countries, efforts being directed principally towards expanding and diversifying the productive base and improving the administrative organization of such countries. This assistance should be given in such fields as the exploration and exploitation of natural resources; the identification, preparation and execution of projects relating to the creation of an infrastructure; the establishment of economic and social planning bodies; the promotion of exports; the promotion of products likely to be saleable as a result of measures designed to open up markets; machinery and facilities for the marketing of such products and terms and conditions on which the corresponding arrangements might be concluded; the design of supplementary formulas for financing; and advisory assistance in negotiations, including negotiations in the matter of indebtedness.

In addition to the aspects mentioned above, other features that are of importance in the field of technical assistance at the regional and sub-regional level are the identification, preparation and execution of industrial projects, particularly in connexion with the production of goods for the area market; studies and the preparation of programmes for the joint development of border areas; the development of river basins and multi-purpose multinational projects; studies on the expansion and modernization of existing industries, with a view to facilitating their adaptation to new conditions of regional competition; export promotion; advisory assistance to entrepreneurs, and the training of skilled manpower.

As in the case of financial assistance, adequate international co-ordination would enable the optimum use to be made of available resources. To this end, it will be necessary: (a) to make a special effort to give preferential attention to the least developed countries, in studies and research as well as direct advisory assistance; (b) to co-ordinate the technical assistance programme with the financial assistance programme and with activities in the sphere of regional and sub-regional integration policies; and (c) to examine all aspects of the technical assistance received by the least developed countries - sources, terms and conditions, effectiveness, degree of absorption and diffusion, etc. - in order to determine how far and by what means its efficiency could be increased.

/As a

As a supplement to the trade, financial and technical assistance measures mentioned above, consideration might be given to the formulation of other measures in keeping with the major objectives of the development strategy and likely to contribute to promoting the co-operation of the developed countries and the international community in the efforts being made by the developing countries, particularly the least developed among them.

As regards the "hard core" countries, international action should also help to support and promote domestic efforts to incorporate into the national market sectors of the population which remain on the fringes of the monetary economy, to increase agricultural and mining productivity through the investment for purposes of modernization of funds provided through international co-operation, and to provide for adequate commercial and financial compensation to enable countries that currently enjoy special preferences to surmount the difficulties caused by the elimination of such preferences, thus bringing into effect the concept of equivalent advantages mentioned in UNCTAD resolutions.

In the matter of production, international support should be given to initiatives in favour of horizontal and vertical diversification and every effort should be made to facilitate the training of staff and the production of more highly processed goods for the domestic market and for export. Among other things, the developed countries should promote investment in the least developed countries and review their policies of support for certain branches of agricultural production (sugar, timber, cotton, fats and oils, etc.) and their policies on the sale of surpluses, so as to assure such countries of export markets.

A considerable number of less developed countries possess untapped or poorly tapped agricultural resources, and adequate mobilization of international aid is necessary if these are to be fully utilized. FAO has indicated a series of measures that could be applied at the international level to increase productivity and food production in both the "hard core" least developed countries and the countries that are sectorally deficient so far as the agricultural sector is concerned.

Steps should also be taken to revise the system of international assistance and to draw up suitable programmes for the improvement of the institutional structure of the least developed countries, the organization of the services sectors (banks, insurance, tourism) with external trade in mind, and the improvement of shipping facilities (infrastructure and cost of freight). The international community could also help in the general

/and specialized

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## Chapter VII

### SPECIAL PROBLEMS OF THE LAND-LOCKED COUNTRIES

#### 1. General considerations

The Trade and Development Board has requested the Secretary-General of UNCTAD to prepare a comprehensive action programme for presentation to the third session of UNCTAD within the conference of UNCTAD and within the framework of the International Development Strategy, in favour of the land-locked developing countries. In Resolution 69 (X), the Board recommended that the Governments of land-locked developing countries and their transit neighbours should continue their joint efforts to reduce barriers to mutual trade and to facilitate the flow of traffic across frontiers, while curbing smuggling and the diversion of trade. In this connexion, it mentioned the role of intergovernmental consultations and the importance of co-operation towards these ends by United Nations agencies, including the regional economic commissions and international financial institutions.

The International Development Strategy refers to the need to extend adequate financial and technical assistance to the land-locked countries for projects designed to develop and improve the transport and communications infrastructure needed by these countries, especially the transport modes and facilities most convenient to them and to the transit developing countries concerned. It also calls upon all States invited to become parties to the Convention on Transit Trade of Land-locked States of 8 July 1965 to accede to the Convention or to ratify it at the earliest possible date.

At the recent Ministerial-level meeting in Lima, the developing countries making up the Group of 77 urged the land-locked members and their transit neighbours to make efforts to conclude bilateral agreements or, if mutually agreed, multilateral arrangements with respect to:

- (a) The appointment of representatives to assist in the clearance of goods of the land-locked countries in transit;
- (b) The establishment of intergovernmental consultations on transit trade;
- (c) The simplification of customs and other procedures and formalities;
- (d) Imbuing the officials concerned with the spirit of comprehension and flexibility with which transit agreements should be applied.

/They also

They also suggested that the land-locked countries and their transit neighbours should conclude transport agreements in order to:

- (1) Facilitate the free circulation of vehicles across frontiers, if necessary on a reciprocal basis;
- (2) Facilitate the movement of rolling stock on interconnected railway systems.

With respect to the financial and technical assistance that should be provided by the developed countries and the competent international organizations to the land-locked countries, the Group of 77 has been stressing two areas of action:

- (i) Studies on the feasibility, construction and maintenance of all-weather through transport routes for heavy vehicles; railway infrastructure and rolling stock; the standard of navigability of inland waterways; air transport; communications, and pipeline transport;
- (ii) The need for feasibility studies and investment for development suited to the special geographical circumstances of the land-locked countries, in respect of import substitution, export promotion, exploitation of natural resources, and the development of tourism.

The main objectives of the efforts requested of the international community in the Declaration and Action Programme of Lima also include the need to guarantee transport costs, including the application of promotional freight rates and service charges to place the exports of the land-locked countries on a competitive footing and keep down the cost of their imports. The Declaration suggests that the land-locked countries should produce high bulk low value goods for domestic consumption and export low bulk high value products, so as to reduce the relative impact of transport costs.

The demands of the developing countries for action to benefit the land-locked countries coincide in many respects with the suggestions made by the experts who met at the invitation of UNCTAD to discuss this issue, and contain general guidelines that should form part of an international action programme of financial and technical assistance by the developed countries and the appropriate international organizations for carrying out studies on the feasibility, construction, improvement and maintenance of transport systems (road, railway, inland waterway, pipeline and air) and postal and communications systems. The Secretary-General of UNCTAD is to

/present to

present to the third session of UNCTAD a comprehensive action programme within the competence of UNCTAD and within the framework of the International Development Strategy. For their part, the Latin American countries members of the Special Committee on Latin American Co-ordination (CECLA), in Resolution 13 (XII), requested the ECLA secretariat to prepare studies on what measures might be of special benefit to the land-locked countries of Latin America. In compliance with this request, the ECLA secretariat has begun to compile the necessary data and material, in consultation with the land-locked countries of the region, and will shortly supplement these through further consultations with their transit neighbours. Since so little time has elapsed since the CECLA meeting (October 1971), the present chapter will include only preliminary statistical data and comments on this issue.

## 2. Special characteristics of the land-locked countries

Thirteen of the eighteen land-locked developing countries have been identified by the United Nations Committee for Development Planning, whose findings were subsequently approved by the General Assembly <sup>1/</sup>, as belonging to the "hard core" least developed countries. The countries excluded from this classification were the Central African Republic, Swaziland and Zambia in Africa, and Bolivia and Paraguay in Latin America. The two land-locked Latin American countries are considered "countries at a relatively less advanced stage of economic development" within LAFTA, and Bolivia is considered a relatively less developed member of the Andean Group.

The structural situation and development of the land-locked Latin American countries show the effects of a combination of relative underdevelopment and lack of direct access to the sea. The two land-locked countries are surrounded by developing countries that are at a more advanced stage of development and have greater economic potential, and it is particularly striking, that the least developed areas of their transit neighbours are virtually without exception those that border upon the land-locked countries. Hence, the efforts being made by the land-locked countries to step up their rate of development would be facilitated if their transit neighbours themselves evolved national policies to promote more rapid growth in the border areas, carried out infrastructural projects there, and entered into joint enterprises to promote closer economic ties between the adjoining areas of the two countries.

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<sup>1/</sup> General Assembly Resolution 2767 (XXVI).

Table 1 presents some statistics that show pronounced differences in development between the land-locked countries of Latin America and their transit neighbours. Thus, Bolivia and Paraguay, which cover 7.6 per cent of the total surface area of the region, account for only 2.6 per cent of the region's population and provide only 1.2 per cent of the regional gross domestic product. In 1970, the per capita product of the land-locked countries (224 dollars) was barely 47 per cent of that of their transit neighbours (477 dollars), which itself was slightly lower than the regional average (495 dollars).

In differing degrees, Bolivia and Paraguay have a coefficient of industrial development, expressed as the ratio of industrial product to gross product, that is lower than the regional average and much lower than in some of their transit neighbours. In contrast, the share of agriculture in the gross product is much higher than the regional average, with a large proportion of the labour force engaged in agriculture, particularly in Bolivia (approximately 60 per cent of the total economically active population).

As regards foreign trade, the ratio of exports to the domestic product in these countries is higher than in Latin America as a whole, but the share of manufacturing in the value of exports is only 1.2 per cent in Bolivia and 10.1 per cent in Paraguay, the latter figure falling to 3.9 per cent if quebracho extract and essential oils are excluded.

As a supplement to the information given in table 1, table 2 presents a number of statistical indices on the economic and social development of the land-locked countries in relation to the region as a whole.

The social indices selected - life expectancy, literacy rate, circulation of newspapers and number of telephones installed - indicate a situation that is below the average for the region as a whole. Although no detailed data are available to be able to compare the economic and social situation of Bolivia and Paraguay with that of the bordering areas of their transit neighbours, the differences are probably much less than between the countries taken as a whole.

Table 3 gives basic data on the physical infrastructure - railways, roads, international ports and airports, oil and gas pipelines, and telecommunications.

/Table 1



Table 1

LATIN AMERICA: BASIC DATA ON THE LAND-LOCKED COUNTRIES AND THEIR TRANSIT NEIGHBOURS, 1970

| Country                   | Surface area<br>(Thousands of km <sup>2</sup> )<br>a/ | Popula-<br>tion<br>(Millions)<br>b/ | Total<br>gross<br>domestic<br>product<br>(Millions of dollars<br>at 1960 prices)<br>c/ | Per<br>capita<br>gross<br>product<br>(Dollars at 1960<br>prices)<br>c/ | Industry<br>(as a per<br>centage<br>of total<br>GDP)<br>c/ | Agricul<br>ture (as<br>a percent<br>age of<br>total<br>GDP)<br>c/ | Exports<br>(as a per<br>centage<br>of total<br>GDP)<br>d/ | Manufac<br>tures (as<br>a percent<br>age of<br>exports)<br>e/ |
|---------------------------|---|-------------------------------------|--|--|--|---|---|---|
| <b>Land-locked</b>        |   |                                     |  |  |  |   |   |   |
| Bolivia                   | 1 098.6   | 4.7                                 | 935.2  | 201  | 13.2   | 22.9  | 17.4  | 1.2   |
| Paraguay                  | 406.8   | 2.4                                 | 658.3  | 272  | 18.6   | 34.1  | 16.6  | 3.9 f/  |
| <b>Transit neighbours</b> |   |                                     |  |  |  |   |   |   |
| Argentina                 | 2 776.6   | 24.4                                | 22 621.8   | 929  | 35.7   | 14.8  | 12.4  | 13.6  |
| Brazil                    | 8 512.0   | 93.2                                | 33 201.6   | 356  | 24.7   | 19.4  | 6.2   | 9.7   |
| Chile                     | 756.9   | 9.9                                 | 5 822.5  | 595  | 25.5   | 10.4  | 14.3  | 4.3   |
| Peru                      | 1 285.2   | 13.6                                | 5 056.8  | 372  | 22.9   | 18.4  | 22.0  | 1.3 g/  |
| Uruguay                   | 186.9   | 2.9                                 | 1 988.3  | 688  | 22.3   | 20.6  | 19.0  | 13.8  |
| <b>Latin America</b>      | <b>20 019.8</b>                                       | <b>275.0</b>                        | <b>131 861.2</b>   | <b>495</b>   | <b>24.2</b>  | <b>16.7</b>   | <b>10.3</b>   |   |

Source: ECLA, on the basis of official statistics.

a/ Source: ECLA, Statistical Bulletin for Latin America, vol. VIII, N° 1.

b/ Source: CELADE, Boletín Demográfico, year IV, N° 8.

c/ The figures and calculations are based on the concept of gross domestic product by branch of activity at 1970 factor cost, and are expressed in dollars at 1960 prices. The values were estimated by applying 1960 parity exchange rates to data expressed in national currency at 1960 prices, as estimated by ECLA on the basis of official figures. For more details, see ECLA, Economic Survey of Latin America, 1968 (United Nations publication, Sales N° E.70.II.G.1) and ECLA, "Producto interno bruto en los países de América Latina" (E/ON.12/L.51).

d/ Calculated on the basis of the 1970 GDP at 1960 market prices.

e/ Source: Foreign trade yearbooks. The data refer to 1969, except in the case of Uruguay where they are for 1970.

f/ 10.1 per cent, including quebracho extract and essential oils.

g/ 10.8 per cent, including fish flour.

/Table 2

Table 2

LATIN AMERICA: INDICES OF THE ECONOMIC AND SOCIAL DEVELOPMENT OF THE LAND-LOCKED COUNTRIES

| Index   | Unit                        | Bolivia    | Paraguay   | Latin America     |
|---|-----------------------------|------------|------------|-------------------|
| I. Population on 30 June 1970   | Thousands                   | 4 658      | 2 419      | 274 977           |
| Annual growth rate 1960-1970  | Percentage                  | 2.3        | 3.3        | 2.9               |
| Population density  | Inhabitants/km <sup>2</sup> | 4.2        | 6.0        | 13.7              |
| II. Agricultural employment as a proportion of total active population (estimated 1960) | Percentage                  | 61.0       | 56.0       | 48.4              |
| III. Expectation of life at birth 1965-1970   | Years                       | 45.3       | 59.3       | 60.5              |
| IV. Persons over the age of 15 who know how to read and write                           | Percentage                  | 1950: 32.1 | 1962: 74.6 | 60 <sup>a/</sup>  |
| V. Telephones, 1969   | Per 1 000 inhab.            | 8.3        | 9.1        | 26.7              |
| VI. Newspapers, 1969  | Copies per 1 000 inhab.     | 34.0       | 40.0       | 72 <sup>b/</sup>  |
| VII. Apparent consumption of cement, 1968 <sup>a/</sup>                                 | kg per inhab.               | 25         | 15         | 109               |
| Apparent consumption of iron, 1967  | "                           | 9.8        | 11.8       | 40.2              |
| Apparent consumption of electricity, 1970   | kWh per inhab.              | 161        | 78         | 543               |
| VIII. Gross domestic product, 1970 <sup>d/</sup>  | (At 1960 prices)            |            |            |                   |
| Total   | Millions of dollars         | 935.2      | 658.3      | 131 862.2         |
| Per capita  | Dollars                     | 201        | 272        | 495               |
| IX. Sectoral structure of gross product <sup>e/</sup>                                   |                             |            |            |                   |
| Manufacturing   | Percentage                  | 13.2       | 18.6       | 24.2              |
| Agriculture   | "                           | 22.9       | 34.1       | 16.7              |
| Other productive sectors  | "                           | 18.8       | 3.3        | 7.7               |
| Transport, commerce and finance (including communications)                              | "                           | 19.3       | 22.4       | 27.6              |
| Other services <sup>f/</sup>  | "                           | 25.8       | 21.6       | 23.8              |
| X. Foreign trade (growth rate 1960-1970)  |                             |            |            |                   |
| Exports   | Percentages                 | 13.7       | 9.0        | 5.6 <sup>d/</sup> |
| Imports   | "                           | 10.2       | 7.1        | 6.2 <sup>g/</sup> |

Sources: I and III: CELADE, *Boletín Demográfico*, year IX, N° 3; II: ILO, *Labour force projections, 1965-1985*, Part III, Geneva 1971; IV: United Nations, *Statistics on children and youth in Latin America*, supplement to *Statistical Bulletin for Latin America*, Santiago, Chile, 1970; V and VI: United Nations, *Statistical Yearbook, 1970*; VII: ECLA, on the basis of official statistics; VIII and IX: ECLA, *Economic Survey of Latin America, 1968*, *op. cit.*, and *El producto interno bruto en los países de América Latina* (E/CN.12/L.51); X: Foreign trade yearbooks and Central Bank bulletins.

Note: Except where otherwise indicated, Latin America is taken to comprise twenty countries.

<sup>a/</sup> Estimated.

<sup>b/</sup> 1965.

<sup>c/</sup> Comprises twenty countries plus four territories.

<sup>d/</sup> Comprises twenty countries excluding Cuba.

<sup>e/</sup> The figures and calculations are based on the concept of gross domestic product by branch of activity at 1970 factor cost. The absolute values are expressed in dollars at 1960 prices, for which purpose 1960 parity exchange rates were applied to the data expressed in national currency.

<sup>f/</sup> Includes electricity, gas and water; ownership of dwellings; public administration and other services.

<sup>g/</sup> Includes twenty countries, excluding Cuba and Haiti.

/Table 3

Table 3

LATIN AMERICA: BASIC DATA ON THE PHYSICAL INFRASTRUCTURE OF THE LAND-LOCKED COUNTRIES

|  | Bolivia        | Paraguay   |
|--|----------------|------------|
| <u>Railways (1969)</u>                                     |                |            |
| - Length in km   | 3 524          | 441        |
| (of which international)                                   | (1 849)        | (376)      |
| - Under construction or planned                            | 310            | -          |
| (of which international)                                   | (-)            | (-)        |
| <u>International freight carried (tons)</u>                |                |            |
| - From the land-locked countries                           | 519 665 (1970) | 55 876     |
| - To the land-locked countries                             | 209 937        | 34 409     |
|  | 309 728        | 21 467     |
| <u>Roads (km)</u>  |                |            |
| - Paved roads (1969)                                       | 1 048          | 810        |
| (of which international)                                   | (3)            | (697)      |
| - Unpaved roads  | 17 231         | 5 500      |
| (of which international)                                   | (560)          | (-)        |
| <u>Ports on international rivers or lakes (number)</u>     |                |            |
|  | 2 (lake)       | 22 (river) |
| - Freight moved (exports) (tons)                           | 200 000        | 200 320    |
| (imports) (tons)   | 1 500          | 439 127    |
| (domestic) (tons)  | 36 000         | 75 551     |
| - Passengers moved (to other countries)                    | ...            | 4 374 a/   |
| (from other countries)                                     | ...            | 6 217 a/   |
| <u>International airports (number) (1969)</u>              |                |            |
|  | 2              | 1          |
| - Freight carried (international) (tons)                   | 1 550          | 1 331      |
| (domestic) (tons)  | 14 708         | ...        |
| - International passengers (entering)                      | 20 649 (1970)  | 49 008     |
| (leaving)  | 17 355 (1970)  | 48 210     |
| <u>Oil and gas pipelines</u>                               |                |            |
|  | 528 km         |            |
| - Oil pipelines constructed (km)                           |                |            |
| Sica Sica-Arica  | 270            |            |
| Camiri-Yacuiba   | 258            |            |
| - Volume of oil transported (thousands of m <sup>3</sup> ) |                |            |
| Actual: Sica Sica-Arica                                    | 1 118.8        |            |
| Camiri-Yacuiba   | 504.9          | 1 623.7    |
| Potential: Sica Sica-Arica                                 | 5 565          |            |
| Camiri-Yacuiba   | 1 270          | 6 835      |
| - Gas pipeline under construction Santa Cruz-Yacuiba       | 524 km         |            |
| <u>Telecommunications</u>                                  |                |            |
| - International telex (minutes)                            |                | 161 801    |
|  | Inter-         | National   |
|  | national       |            |
| - Telephone calls (minutes)                                | 463 691        | 2 506 629  |
| - Telegrams and cables (words)                             | 1 410 392      | 3 305 403  |
| - Satellite communications                                 |                | ...        |

a/ Port of Asunción.

/(a) Bolivia

(a) Bolivia

Of the three major regions of Bolivia (the Altiplano, the Oriente and the Norte) two are connected with each other by road, namely the Altiplano, which is the most developed region and is centred around the triangle formed by Cochabamba, La Paz and Oruro, and the Oriente, which has stepped up its rate of development in recent years and is centred around Santa Cruz de la Sierra. These two regions both have railway systems - the western and the eastern - which are used for local and international connexions, but they are not interconnected. For many years now Bolivia has been hoping to link the two systems through the Aiquile-Florida link and to remodel the sector Cochabamba-Aiquile, and it has taken measures on a number of occasions to try to speed up the realization of these aspirations.

Bolivia has the following international connexions:

- (a) Connexion to the Pacific, for the western area;
- (b) Connexion to the south for the Altiplano region, with entry to Argentina;
- (c) Connexions to the south and east for the Oriente region;
- (d) Connexion by waterway and road for the Norte region, connected to the Brazilian waterway and road systems.

There are three railway connexions to the Pacific:

- (a) The railway to the Peruvian port of Matarani, requiring transshipment across Lake Titicaca;
- (b) The railway to Arica, which presents the problem of very steep gradients on the Chilean side of the Andes;
- (c) The railway link to Antofagasta, which has the disadvantage of being a long distance away from La Paz and the Altiplano region.

In addition to these railway links, an all-weather road link could be established between La Paz and the Peruvian port of Ilo, the roads linking Arica in Chile with La Paz and Oruro could be completed, and a projected road to link Iquique and Oruro could be built.

/In the

In the Oriente region, the following links now exist:

- (a) The railway between Santa Cruz (Bolivia) and Yacuiba (Argentina), with a connexion to the Argentine metre-gauge railway system which has a terminal in the port of Buenos Aires, and the railway between Santa Cruz and Corumbá (Brazil), with connexions to Santos and other Brazilian Atlantic ports.
- (b) Roads from Tarija which are connected with the Bolivian trunk road system and join the Argentine road system at Yacuiba, Bermejo and Villazón.

As regards probable connexions to the east, through Paraguay, the prospects for road links must be evaluated over the long term, all that exist at present are some non-all-weather roads in marginal and virtually unpopulated areas.

To the north, there is a railway running from Guayamerín (Bolivia) to Porto Velho (Brazil), with a river connexion to Belem do Pará on the Atlantic. In the same area of Brazil, work is being completed on the surfacing of a Brazilian federal highway which connects with the road running between Riberalta and Guayamerín in Bolivia and is to extend as far as Manaus, where it will connect with the highway to Sao Paulo and the Trans-Amazon Highway. Connexions between the Norte region and the other two main regions (the Oriente and the Altiplano) depend on linking the river basin with Cochabamba and Santa Cruz by means of the road running from Cochabamba via Villa Tunari to Puerto Villaroel, on extending the Santa Cruz railway to Puerto Mamoré, and on the Santa Cruz-Puerto Grether highway.

With respect to international communications, Bolivia is assigning priority to connecting the central telecommunications system of the La Paz-Oruro-Cochabamba triangle and Santa Cruz with Pacific ports in Peru and Chile, with Argentina (via Salta), with Brazil (via Puerto Suárez) and with Europe (via Spain). At present there is a direct communications system between Bolivia and the United States. The systems referred to above will be based on the use of microwave systems and possibly satellites. Another important aspect relating to Bolivia's international communications facilities is the completion of projects which are already under way to improve postal operations.

With respect to energy, it is estimated that Bolivia's hydroelectric potential is at least one hundred times current hydroelectric output (17 MW), which represents 80 per cent of total national energy production. The remaining 20 per cent, part of which supplies the Oriente region, comes from thermal energy sources which, because they use natural gas, produce power cheaper than the hydroelectric stations.

/These thermal

These thermal power stations not only produce electricity more cheaply, but can also be installed much more rapidly, and this should help to speed up work on projects for processing a number of ores, including zinc, tungsten, bismuth and antimony, which have considerable economic potential in Bolivia. The construction of a number of infrastructural works is a prerequisite for developing certain export-oriented industrial complexes, particularly in mining and steel-making (Mutún) and the petrochemicals industry.

(b) Paraguay

Despite the fact that Paraguay has extended its road system substantially over the past decade, and has natural advantages for road transport in that most of the country is flat, 70 per cent of all roads are dirt roads that are open to traffic only for part of the year since, in order to prevent damage as a result of drainage problems, they are compulsorily closed for short periods during the rainy seasons, which creates traffic jams and leads to irregularity in transport. Only 10 per cent of the roads in Paraguay are paved, and all of them are in the Asunción-Puerto Stroessner-Encarnación triangle. A further 20 per cent, virtually all in the eastern part of the country, are metalled and are practically all-weather.

Among international roads, the Puerto Stroessner-Curitiba-Paranaguá road and the Asunción-Formosa-Buenos Aires road are completed paved. Freight haulage along these two routes, which have helped to develop the surrounding areas, does not so far appear to have achieved any significant level as regards international trade, even though the two routes are of great potential importance for Paraguay's foreign trade.

Between 95 and 98 per cent of Paraguay's foreign trade is carried by waterway, and much of the remainder is transported by rail. The port of Asunción handles 90 per cent of all imported freight and 30 per cent of all exports. There are twenty-one other small ports and docking places without proper installations, including Puerto Stroessner, Puerto Franco and Encarnación, on the Paraná river. The port of Asunción has been expanded on several occasions in recent years, and this has enabled it to improve handling and reduce costs.

A number of national and multinational projects to control the waterways linking Paraguay with other countries are being studied or are under way. One point that requires consideration is the cost of transshipment in the ports of Buenos Aires and Montevideo (formalities, lighterage, port dues, loading and unloading, etc.), added to the cost of offloading to lighter ship in the shallow passages of the Paraguay river.

/Rail facilities

Rail facilities consist only of the Asunción-Encarnación railway (376 km), with a branch line between San Salvador and Abaí (64 km) which connects with the Urquiza railway in Argentina via the Encarnación ferry (Pacú-cúa-Posadas).

With respect to electric power, the entry into operation of the Acaray hydroelectric project and the transmission line from Acaray to Asunción has made the thermal power station that formerly supplied Asunción redundant. Once Acaray has been connected with Misiones and with Paraná, and once the second stage of the Acaray-Monday project is completed, Paraguay will begin to export energy to Argentina and Brazil, while maintaining a margin of capacity to enable it to cover future increases in domestic demand.

### 3. Regional action

#### (a) Physical infrastructure

The appendix to the present chapter contains a list of projects under study or being implemented that have been identified by the ECLA secretariat as being concerned with the physical infrastructure in Bolivia and Paraguay and with international connexions designed to facilitate the entry and exit of goods to or from those countries for the regional or the international market. In some cases these projects have led to the conclusion of bilateral or multinational agreements by the countries directly concerned. A number of agreements with neighbouring countries have enabled Bolivia and Paraguay to complete a network of connexions that, once in operation, will help them to surmount the obstacles caused by their lack of direct access to the sea.

Some of the infrastructural projects planned will make an immediate contribution to the external sector of the two countries. For example, the construction of the gas pipeline between Colpa and Yacuiba (526 km), at an estimated total cost of 60 million dollars, will make it possible for Bolivia to export 150 million cubic feet of natural gas to Argentina, for a net annual return of 6.5 million dollars. When the Acaray-Monday hydroelectric project reaches its final phase, Paraguay should be able to export 140 million KWH annually to Argentina and Brazil, for an income of some 2 million dollars.

#### (b) Operational aspects and transport costs

As a result of national and multinational projects promoted by the land-locked countries and their transit neighbours in Latin America, it has been possible to improve operating conditions with a view to facilitating the more efficient utilization of the infrastructural works (railways, roads, inland waterways, etc.) already in existence or being constructed and to reducing

/transport costs

transport costs, these latter being a key factor in helping to integrate the land-locked countries with their neighbours and with international markets. With respect to railways, the efforts of the area groups set up by the Latin American Railways Association (ALAF) to improve services and derive maximum advantage from the capacity of the thirteen international railway lines in the southern triangle of the continent have been particularly worthy of note.

A number of bilateral and multilateral agreements and declarations have dealt with the co-ordination of road, waterway and air transport; the standardization of equipment and packing used in international trade, the utilization of river basins, the standardization and lowering of rates; the simplification of customs and administrative formalities; and the improvement of the services provided by transit countries (seaport operations, transshipment and handling of goods, etc.).

(c) Technical and financial assistance

The Inter-American Development Bank and the transit countries have been providing technical and financial assistance for the realization of physical infrastructure projects of interest to Bolivia and Paraguay. The two countries have also taken joint governmental action to obtain resources and international assistance. The integration of the physical infrastructure and the co-ordination of policies and services by the land-locked countries and their transit neighbours will help to improve the utilization of the existing infrastructure and will accelerate the implementation of new projects that are in line with the economic and social development priorities of the two countries concerned, while the establishment of multinational applied research institutes, the granting of fellowships for training and upgrading courses, and the organization of instructional courses will improve labour skills and make it possible to derive greater advantage from the natural resources available in Bolivia and Paraguay. Such matters are the constant concern of the Latin American Governments and of such regional agencies as the OAS, INTAL, ECLA and ILPES.

Within the framework of the intergovernmental agreements covering the River Plate basin, the idea of setting up a financial fund to help to channel resources towards projects in the two Latin American land-locked countries is gaining ground. In the case of Bolivia, it should be mentioned that the Andean Development Corporation may finance multinational enterprises 2/ for the development of productive sectors of common interest to the Andean countries.

2/ The Andean Group is studying the possibility of forming through the Andean Development Corporation, a multinational air freight fleet operating with chartered aircraft.

/(d) Co-ordination



(d) Co-ordination of action policies and instruments

Of particular importance with respect to the infrastructure is the need to set up a well-co-ordinated transport and communications network that will enable the land-locked countries to operate in the most efficient conditions possible. Transport planning should cover all transport systems, since it would hardly be logical to plan for each mode of transport separately, or in isolation from some of the economic features of operations, such as type and volume of freight, losses and damage, cost of goods and freight rates, packaging and presentation, distance to be transported, transshipment, etc., all of which are closely related to national economic development planning and regional and sectoral priorities.

Co-ordination should cover all the modes of transport involved in moving goods from where they are produced to the consumer market, and it should take account of all the factors involved, particularly when goods are transported by a combination of train, truck and boat. Co-ordination should also help to reduce unnecessary delays, the duplication of administrative formalities, increased costs, trade risks, and possible damage to goods. In this respect, account should be taken of the various transport alternatives and of the degree of competition between the same or different methods of transport (rail, road, waterway, and possibly pipeline).

Transport facilities should be in keeping with the real and potential possibilities of the traffic carried by each method and the particular characteristics of the goods carried. Table 4 gives statistics on the foreign trade of Bolivia and Paraguay by destination and origin, and breaks down exports into major groups.

A major concern of the land-locked countries as regards transport policy is the value-weight ratio of their exports and imports <sup>3/</sup>, since goods exported and imports required for the domestic market have to travel long distances to or from seaports.

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<sup>3/</sup> For example, exports of crude or worked metals rather than ores from Bolivia, and exports of sawn and worked wood instead of roundwood from both Bolivia and Paraguay.

Table 4  
 LATIN AMERICA: TRADE BY THE LAND-LOCKED COUNTRIES  
 (Millions of dollars)

|                                  | Bolivia<br>Average 1965-1969 |              | Paraguay<br>Average 1966-1970 |             |
|----------------------------------|------------------------------|--------------|-------------------------------|-------------|
|                                  | Imports                      | Exports      | Imports                       | Exports     |
| Latin America                    | 19.2                         | 10.5         | 16.7                          | 19.0        |
| Bordering countries              | 17.0                         | 9.9          | 15.1                          | 14.7        |
| United States                    | 59.3                         | 61.7         | 15.8                          | 11.0        |
| Western Europe                   | 43.4                         | 85.8         | 26.1                          | 17.7        |
| Socialist countries              | 2.1                          | -            | 0.5                           | -           |
| Other countries                  | 24.4                         | 5.4          | 12.2                          | 4.3         |
| <u>Total</u>                     | <u>148.4</u>                 | <u>163.4</u> | <u>71.3</u>                   | <u>52.0</u> |
|                                  | 1968                         |              | 1970                          |             |
| Agricultural and forest products |                              | 7.1          |                               | 57.6        |
| Mining products                  |                              | 163.3        |                               | -           |
| Manufactures and other           |                              | 0.2          |                               | 6.5         |
| <u>Total</u>                     |                              | <u>170.6</u> |                               | <u>64.1</u> |

/It would

It would also be useful to look into the possibility of promoting the formation of multinational marketing and transport enterprises (for example for road haulage and the import/export trade), in which the national enterprises of the land-locked countries would be given maximum participation. A number of other aspects would have to be taken into account at the regional level, such as domestic and external financial requirements for constructing duty-free and bonded warehouses, cold-storage facilities, mechanized loading yards for ores, bulk transporters, etc., in the transit countries, and the need to establish, through bilateral or multilateral agreements, operational procedures for facilitating the entry and exit of goods to and from the land-locked countries.

With respect to the nature and interpretation of the legal provisions governing the trade and transit operations of the land-locked countries, the following desiderata should be kept in mind: free movement of vehicles and persons, the establishment of rapid communications, freedom of navigation on inland waterways, movement of goods from origin to destination without intermediate customs controls, use of a single set of documentation, flexibility as regards rules of origin, etc. Bilateral agreements and also international standards accepted by the Latin American countries provide for special treatment for the transit of goods to and from the land-locked countries. There are also provisions and agreements designed to facilitate access by the products of the land-locked countries to neighbouring markets. Such agreements refer in particular to the regulation of conditions of transit, the regime for border traffic, the promotion of the development of adjoining areas, and joint activities by the land-locked countries and their transit neighbours.

#### 4. International co-operation

Although action at the regional level, through policies agreed upon jointly by the land-locked countries and their transit neighbours, is the basic element in solving the problems deriving from lack of direct access to the sea, the international community also has an important role to play, because: the cost of pre-investment studies is very high and the land-locked countries are generally short of financial resources; investment in infrastructure has a very low economic return and, therefore, represents a great burden on their economies; the land-locked countries in many cases have an unsuitable economic structure, which makes it advisable to plan for import-saving or export-oriented industries with a view to deriving greater advantage from natural resources and improving the possibilities for complementarity arrangements with neighbouring countries and bordering areas of the latter; and in some cases the land-locked countries have little experience and are not up to date as regards technology.

/International action

International action in Latin America could be channelled at the regional level through ECLA, OAS, IADB and the integration movements (LAFTA, SIECA, CARIFTA and the Andean Group), with the participation of international agencies such as UNDP, UNIDO, IBRD, IDA and IMF that are in a position to supply selective financial and technical assistance to the land-locked countries, either directly or through regional channels, to assist them in solving their specific problems, especially as regards the structure and conditions of domestic and international transport. The contribution of international agencies should be combined and co-ordinated in individual programmes that respond to the needs and priorities of the land-locked countries and that permit of periodic appraisal of the results and progress achieved at the regional and world levels <sup>4/</sup>. Accordingly, by using the resources at their disposal or by setting up special funds, the regional and international agencies should focus their attention on:

- (i) Increasing the amount of financial and technical assistance made available for infrastructural projects and for equipping and modernizing the transport systems of the land-locked countries, with a view to expanding and speeding up traffic and lowering the cost of international transport and communications. Where appropriate as has been stated within UNCTAD, consideration should be given to the possibility of lowering freight rates and fixing differential rates to place the exports of the land-locked countries and their imported inputs on a competitive footing;
- (ii) Giving first priority in the allocation of non-reimbursable technical assistance to the land-locked countries and waiving local counterpart contributions unless these can be covered by using local experts or supporting staff who will thus be able to improve their skills;
- (iii) Giving first priority to the land-locked countries in the provision of "soft" credit, waiving local counterpart contributions where possible;
- (iv) Setting up an international fund to promote the execution of infrastructural projects in the land-locked countries, and possibly using some of the resources of the fund to compensate for excessively costly freight rates or services.

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<sup>4/</sup> This without prejudice to and as a complement to international and regional action in favour of the "least developed" countries (hard core), the countries with sectoral weaknesses, or the economically relatively less developed countries coming within specific integration agreements or geographical groupings (see chapter VI).

Appendix

INFRASTRUCTURAL PROJECTS UNDER WAY, PLANNED AND/OR UNDER  
STUDY WHICH ARE OF DIRECT OR INDIRECT INTEREST TO  
THE LAND-LOCKED LATIN AMERICAN COUNTRIES <sup>1/</sup>

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|                 | Project  | Purpose  | Status   |
|-----------------|--|--|--|
| <u>National</u> |  |  |  |
| Bolivia         | -Electricity project,<br>Santa Cruz de la Sierra                   | Energy production  | Under way. Virtually<br>completed.                               |
|                 | -Hydroelectric power<br>station San Jacinto                        | Energy production  | Under study.   |
|                 | -Dam at Puerto Margarita<br>and irrigation project,<br>Villamontes | Water flow control,<br>irrigation, energy                | Idea for project.<br>Some irrigation<br>works completed.         |
|                 | -Electricity supply<br>for Potosí and Sucre                        | Energy production  | At an advanced<br>stage of study.                                |
|                 | -Puerto Busch project  | Port on the Paraguay<br>river                            | Preliminary studies<br>completed. Detailed<br>studies under way. |
|                 | -Railway Aiquile-<br>Florida                                       | Railway connexion to<br>complete Arica-Santos<br>railway | Preliminary planning<br>completed                                |
|                 | -Programme of<br>pre-investment studies                            | Basic studies of<br>hydroelectric potential              | Under way.   |

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<sup>1/</sup> This list, which has been prepared by the ECLA secretariat, does not pretend to be exhaustive but simply to give a rough idea of the fields where there is scope for regional or international co-operation.

| Project  | Purpose                                    | Status  |
|--|--|---|
| -Hydroelectric power station, Salto León   | Energy, water-flow regulation              | Pre-feasibility study completed. Project postponed.                       |
| -Otuquis project   | Water-flow control, navigation, energy     | Idea for project.   |
| -Hydroelectric power station, Salto Pilcomayo  | Energy production                          | Idea for project, with preliminary study.                                 |
| -Project at Bala on the upper River Beni   | Flood control, electricity and navigation  | Idea for project, with preliminary study.                                 |
| -Renewal of track and modernization of rolling stock   | Railway traffic                            | Under study.  |
| <u>Paraguay</u> -Harnessing the Acaray and Monday rivers   | Energy production                          | Acaray first stage operational. Rest of project under way or under study. |
| -Expansion and improvement of the port of Asunción   | Doubling the handling capacity of the port | Under way.  |
| -Expansion of Asunción airport   | Build new runway.                          | Under study.  |
| -Paving of the Trans-Chaco highway (sector Villa Hayes-Pozo Colorado) and bridge over the Paraguay River | Road connexion and bridge                  | Under study. Partly under way.  |
| -Preliminary study of the line to be followed by the road between Coronel Oviedo and Salto de Guaira     | Road connexion                             | Under study.  |

| Project   | Purpose   | Status  |                   |
|---|---|---|-------------------|
| -Study for construction of a port at Encarnación            | Port on the River Paraná  | Under study.  |                   |
| -Study for construction of a quay in the port of Concepción | Expansion of a port on the Paraguay River   | Under study.  |                   |
| -Facilities for navigation between Asunción and Confluencia | Navigation  | Under way.  |                   |
| -Renewal of railway lines Asunción and Encarnación          | Rail traffic  | Under study.  |                   |
| <u>Multinational</u>  |   |   |                   |
| Argentina/<br>Bolivia                                       | -Gas pipeline Santa Cruz-<br>Yacuiba  | Transport of gas to<br>Argentina                                      | Under way.        |
|   | -Project on Bermejo river   | Water-flow regulation,<br>irrigation, land<br>reclamation, navigation | Under study.      |
|   | -Highways 9, 34 and 50<br>in Argentina  | Road connexion with<br>Bolivia  | Under way.        |
|   | -Construction of a<br>railway to Mamoré.<br>Extension of Yacuiba-<br>Santa Cruz line. | Rail connexion  | Under way.        |
|   | -Section Mamoré-Trinidad  | Rail connexion  | Idea for project. |
| Argentina/<br>Bolivia/<br>Paraguay                          | -Development of the<br>Pilcomayo as an<br>international waterway                      | Development of water-<br>way for multiple use                         | Idea for project. |

| Project                            | Purpose   | Status              |
|------------------------------------|---|---------------------|
| Argentina/<br>Paraguay             | -Development of the Paraná River around the islands of Yaciretá and Apipé     | Under study.        |
|                                    | -Electricity linkup Acaray-Misiones   | Under construction  |
|                                    | -Development of the Paraná River downstream from Iguazú                       | Idea for project.   |
|                                    | -Development of the Paraná River around Corpus                                | Idea for project.   |
|                                    | -International bridge Formosa-Asunción  | Idea for project.   |
|                                    | -International bridge Posadas-Encarnación                                     | Idea for project.   |
|                                    | -International bridge over the River Pilcomayo (Paraguay)-Formosa (Argentina) | Recently opened.    |
| Argentina/<br>Paraguay/<br>Uruguay | -Multiple waterway development Apipé, Lake Iberá, Salto Grande                | Under study.        |
| Brazil/<br>Paraguay                | -Hydroelectric power station at Unamarama (Sete Quedas)                       | Under study.        |
|                                    | -Linkup of the Paraná system with Acaray                                      | Under construction. |
| Bolivia/<br>Brazil/<br>Paraguay    | Facilities for navigation between Corumbá and Asunción                        | Idea for project.   |



|  | Project   | Purpose                                  | Status   |
|--|---|--|--|
| Chile/<br>Bolivia  | -Construction of road<br>between Oruro and Iquique          | Road connexion                           | Idea for project.                                      |
|  | -Gas pipeline from Santa<br>Cruz to Antofagasta<br>province | Transport of Bolivian<br>natural gas     | Preliminary planning<br>completed.                     |
|  | -Road Arica-La Paz  | Road connexion                           | Under way.   |
|  | -Railways to Arica and<br>Antofagasta                       | Improving rail<br>traffic                | Preliminary study<br>completed.                        |
| Bolivia/<br>Peru   | -Rail ferry across Lake<br>Titicaca                         | Transport of ore to<br>Puno              | In operation.  |
|  | -Road from Ilo to<br>La Paz                                 | Road connexion                           | At an advanced<br>stage of study.                      |
|  | -Development of Lake<br>Titicaca                            | Utilization, irri-<br>gation and energy  | Idea for project.                                      |
| Brazil/<br>Bolivia   | -Gas pipeline Santa Cruz-<br>Sao Paulo                      | Transport of natural<br>gas to Sao Paulo | Idea for project.                                      |
| Bolivia/<br>Paraguay   | -Oil pipeline from<br>Camiri to Asunción                    | Transport of Boli-<br>vian oil           | Idea for project.<br>Preliminary studies<br>completed. |
| Paraguay/<br>Argentina/<br>Chile                                   | -Railway Asunción-<br>Antofagasta                           | Rail connexion                           | Idea for project.                                      |
|  | -Road Asunción-<br>Antofagasta                              | Road connexion                           | Idea for project.                                      |
| Argentina/<br>Brazil/<br>Colombia/<br>Ecuador/<br>Peru/<br>Bolivia | -Highway skirting the<br>rain forest area                   | Road connexion                           | Idea for project.                                      |

|   | Project  | Purpose                     | Status                                |
|---|--|-----------------------------|---------------------------------------|
|   | -Bolivian sectors:   |                             |                                       |
|   | (a) Peruvian border-<br>Rurrenabaque   | Road connexion              | Idea for project.                     |
|   | (b) Rurrenabaque-Río<br>Maniqué  | Road connexion              | Idea for project.                     |
|   | (c) Río Maniqué-Puerto<br>Patiño   | Road connexion              | Idea for project.                     |
|   | (d) Puerto Patiño-Villa<br>Tunari  | Road connexion              | At advanced stage<br>of construction. |
|   | (e) Villa Tunari-<br>Iviviagarzana   | Road connexion              | At advanced stage<br>of construction. |
|   | (f) Iviviagarzana-Puerto<br>Grether  | Road connexion              | Approved by<br>Government.            |
|   | (g) Puerto Grether-<br>Yapacaní  | Road connexion              | Under construction.                   |
|   | (h) Extension:   |                             |                                       |
|   | (i) Yapacaní-<br>Palos Blancos   | Road connexion              | Idea for project.                     |
|   | (ii) Guabirá-Río<br>Grande-<br>Concepción  | Road connexion              | Under construction.                   |
|   | -Concepción-San Ignacio-<br>San Matías   | Road connexion              | Idea for project.                     |
| Argentina/<br>Bolivia/<br>Brazil/<br>Paraguay/<br>Uruguay | -Railway Motacuento-<br>Mutún-Puerto Busch   | Development of<br>the Mutún | Approved by Bolivian<br>Government.   |
|   | -Fuerto Busch  | Development of<br>the Mutún | Approved by Bolivian<br>Government.   |
| Peru/<br>Bolivia/<br>Paraguay/<br>Brazil                  | -The Pan American<br>Transversal Highway,<br>Lima-Río de Janeiro,<br>Bolivian sectors: |                             |                                       |
|   | (a) Machacamarca-<br>Sierra-Camiri   | Road connexion              | Idea for project<br>approved by Govt. |
|   | (b) Camiri-Boyuibe-<br>Fortín Villazón   | Road connexion              | Idea for project<br>approved by Govt. |

| Project                                     | Purpose                                     | Status          |                                    |
|---|---|-----------------|------------------------------------|
| Peru/<br>Bolivia/<br>Argentina/<br>Paraguay | -Pan American Highway,<br>Bolivian sectors: | Road connexion  |                                    |
|   | (a) Desaguadero-El Alto                     | Road connexion  | Preliminary planning<br>completed. |
|   | (b) El Alto-La Paz<br>(superhighway)        | Road connexion  | Preliminary planning<br>completed. |
|   | (c) El Alto-Oruro                           | Road connexion  | Under construction.                |
|   | (d) Oruro-Potosí                            | Road connexion  | Idea for project.                  |
|   | (e) Potosí-Tarija-<br>Bermejo               | Road connexion  | Preliminary planning<br>completed. |
| Brazil/<br>Peru/<br>Bolivia                 | -Manaus-La Paz Highway<br>Bolivian sectors: | Road connexions |                                    |
|   | (a) La Paz-Charazani                        | Road connexion  | Approved by Govt.                  |
|   | (b) Charazani-Apolo                         | Road connexion  | Approved by Govt.                  |
|   | (c) Apolo-Ixiamas                           | Road connexion  | Idea for project.                  |
|   | (d) Ixiamas-Cobija                          | Road connexion  | Idea for project.                  |
|   | (e) Cobija-Parvenir                         | Road connexion  | Under construction.                |



Chapter VIII

TRADE WITH THE COUNTRIES HAVING CENTRALLY PLANNED ECONOMIES

1. Trade relations among countries having different economic and social systems

Ever since the first session of UNCTAD, the developing countries have been stressing the need to ensure that the expansion of trade between the developed socialist countries of Eastern Europe and the developed market-economy countries does not adversely affect the developing countries' trade relations with the two groups, but rather helps to foster the growth of their trade with them. The developing countries have continually requested the socialist countries to adopt a number of trade and financial measures, suited to the form and characteristics of the socialist economic systems, equivalent or similar to those requested of the developed market-economy countries. Resolution 15 (II), adopted unanimously at the second session of UNCTAD, recommended that the socialist countries of Eastern Europe should, inter alia:

- (a) Adopt the necessary measures, taking duly into consideration the trade needs of the developing countries when quantitative targets are fixed in their long-term economic plans, to expand further their trade with developing countries and, at the same time, to promote the diversification of the structure and of the geographical basis of this trade with these countries;
- (b) Endeavour to maintain and, whenever possible, to accelerate the rate of growth of trade exchanges with developing countries;
- (c) Conclude long-term agreements for the purchase of commodities from the developing countries which would include suitable provision aiming at a satisfactory solution as to volume and stability of prices of primary commodities;
- (d) Abolish or reduce, on a preferential basis, tariffs and duties on manufactures imported from developing countries;
- (e) Accord preferential conditions in their procurement policies for commodities and manufactures imported from developing countries;

/(f) Alongside

- (f) Alongside bilateral forms of agreements, multilateralize to the extent possible payments arrangements between them and the developing countries to facilitate and stimulate the expansion of their trade with developing countries;
- (g) Take into consideration when extending credits for the financing of projects in developing countries the particular conditions of the countries concerned and make provisions, where appropriate, for their repayment by the export of the products of those projects;
- (h) Co-operate in the technological research efforts of developing countries by making available to them, on the most favourable terms possible, the results of their work in this field and also by helping national research efforts in these countries.

Machinery for bilateral consultations between the socialist and the developing countries was set up in response to another recommendation contained in resolution 15 (II), although it has not yet had time to produce any results as it only began to operate in late 1971. Similar machinery for bilateral consultations within the EEC has produced excellent results as regards facilitating East-West trade, and it should be born in mind that Czechoslovakia and Poland are already members of GATT, while Hungary and Romania are negotiating entry. Furthermore, the International Development Strategy reaffirmed that the socialist countries of Eastern Europe should take the necessary action to implement, not later than 1972, the recommendations contained in UNCTAD resolution 15 (II).

With respect to the generalized system of preferences, which has already been brought into effect by a number of developed market-economy countries (EEC, Japan, Norway, United Kingdom and Australia), five socialist countries of Eastern Europe (Bulgaria, Czechoslovakia, Hungary, Poland and the Soviet Union) have issued a joint declaration within UNCTAD on the measures that they intend to adopt to provide preferential treatment for imports from the developing countries, particularly manufactures and semi-manufactures, with a view to achieving the objectives laid down in resolution 21 (II). To date, Czechoslovakia and Hungary are the only countries that have issued a detailed statement of the tariff concessions they are prepared to grant to the developing countries in order to give effect to the commitment. However, given the foreign trade system prevalent in the socialist countries, tariffs are generally not a key instrument in the management of foreign trade, which is generally operated through quota systems or bilateral trade agreements. It may be recalled, in this connexion, that when Poland

/negotiated its

negotiated its entry to GATT it committed itself to making quantitative increases in its imports in return for the tariff concessions granted to it as a GATT member by the GATT Contracting Parties. Similar arrangements are being discussed in the negotiations on the entry of Hungary and Romania. The Group of 77 agreed in Lima that the socialist countries of Eastern Europe should:

(a) Devise positive measures in favour of all developing countries to implement resolution 15 (II) adopted at the second session of UNCTAD and the Joint Declaration made by the socialist countries of Eastern Europe in the Special Committee on Preferences and establish a firm and definite time-table for the implementation of these measures;

(b) Take positive action to specify the operational measures to be adopted and the products covered under their lists of preferential treatment for products from developing countries;

(c) Intensify the dissemination of information on the possibilities of imports from the developing countries, notably by the organization of seminars, symposia and training courses, as well as assist the export promotion efforts of the developing countries;

(d) Take into account in their economic development plans the existing and potential production and exports of the developing countries, as well as the diversification projects of the developing countries;

(e) Intensify economic, financial, scientific, technical and other forms of co-operation with the developing countries, aiming at developing the industrial structure and increasing the exports of the developing countries, especially the least developed among them, in such a manner that the greatest possible number of developing countries may benefit from such co-operation;

(f) Implement measures adopted by the United Nations organizations, particularly UNCTAD, to stimulate the transfer of technology to developing countries on fair and reasonable terms;

(g) Upon the request of the developing countries concerned, take steps to extend industrial co-operation in trade with these countries with a view to concluding industrial co-operation arrangements, such as co-production, sub-contracting deliveries in the framework of licensing arrangements and supplementing of production capacities;

/(h) Accept

(h) Accept manufactured goods from the developing countries in repayment of credits;

(i) Take positive action to offer more favourable terms of trade to products from developing countries, especially in respect of terms of payments and trade equalization, e.g., by setting up mutually agreed multilateral payments arrangements with developing countries, with a view to facilitating trade settlements;

(j) Take positive measures not to re-export products from developing countries without the consent of the latter;

(k) Ensure that any efforts for the development and expansion of their trade with developed market economy countries will not adversely affect the trading possibilities and trade expansion of developing countries.

## 2. Evolution of trade

The most striking features of the evolution of the socialist countries' trade over the past five years (see table 1) are the following:

- (a) Trade with the developed market-economy countries expanded rapidly, with exports from such countries to the socialist area growing by 69.7 per cent between 1965 and 1970;
- (b) Intra-area trade was less dynamic and, although expanding by 45.1 per cent over the same period, continued to account for virtually two-thirds of the socialist countries' foreign trade;
- (c) Exports from the developing countries to the socialist countries grew slowly, expanding by only 16.3 per cent over the period in question.

The situation is even more unfavourable in the case of Latin America (excluding Cuba), whose exports to the socialist countries of Eastern Europe remained at a value of around 300 million dollars per year between 1965 and 1970 (see table 2), falling to a low of 217 million in 1967. Six countries (Argentina, Brazil, Colombia, Ecuador, Peru and Uruguay) are responsible for more than 90 per cent of the region's exports to the socialist countries. Cuba's exports to the socialist countries between 1965 and 1970 ranged from a high of 480.6 million dollars in 1967 to a low of 372.2 million in 1970.

/Table 1



Table 1  
COMPOSITION OF EXPORTS TO SOCIALIST COUNTRIES, BY REGION <sup>a/</sup>  
(Millions of dollars)

| Region of origin  | 1965   | 1966   | 1967   | 1968   | 1969   | 1970   |
|---|--------|--------|--------|--------|--------|--------|
| World exports to socialist countries                          | 21 150 | 21 960 | 23 640 | 25 400 | 27 790 | 31 220 |
| From developed countries                                      | 4 990  | 5 760  | 6 270  | 6 510  | 7 140  | 8 470  |
| Percentage of world total                                     | 23.6   | 26.2   | 26.5   | 25.6   | 25.7   | 27.1   |
| From socialist countries                                      | 13 770 | 13 860 | 15 030 | 16 640 | 18 060 | 19 980 |
| Percentage of world total                                     | 65.1   | 63.1   | 63.5   | 65.5   | 64.9   | 64.0   |
| From developing countries                                     | 2 390  | 2 340  | 2 160  | 2 240  | 2 600  | 2 780  |
| Percentage of world total                                     | 11.3   | 10.7   | 9.1    | 8.8    | 9.4    | 8.9    |
| Proportions corresponding to the individual developing areas: |        |        |        |        |        |        |
| Africa  | 570    | 560    | 530    | 600    | 740    | 840    |
| Percentage of world total                                     | 2.7    | 2.6    | 2.2    | 2.4    | 2.7    | 2.7    |
| Asia  | 880    | 905    | 835    | 890    | 1 075  | 1 140  |
| Percentage of world total                                     | 4.2    | 4.1    | 3.5    | 3.5    | 3.9    | 3.7    |
| Latin America   | 940    | 880    | 800    | 750    | 780    | 790    |
| Percentage of world total                                     | 4.4    | 4.0    | 3.4    | 3.0    | 2.8    | 2.5    |
| Latin America excluding Cuba                                  | 410    | 404    | 228    | 266    | ...    | ...    |
| Percentage of world total                                     | 1.9    | 1.8    | 1.0    | 1.0    | ...    | ...    |

Source: United Nations, Monthly Bulletin of Statistics, June 1971, and Yearbook of International Trade Statistics, 1968.

For Cuba: Central Statistical Directorate of the National Planning Board, Boletín Estadístico, 1968.

<sup>a/</sup> Includes all the countries with centrally planned economies in Europe and Asia, with the exception of Yugoslavia. Excludes trade among the socialist countries of Asia and trade between the Federal Republic of Germany and the German Democratic Republic.

Table 2

## LATIN AMERICA: EXPORTS TO EASTERN EUROPE

(Millions of dollars)

|                      | 1961         | 1962         | 1963         | 1964         | 1965         | 1966         | 1967         | 1968         | 1969         | 1970         |
|----------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Argentina            | 52.3         | 52.8         | 52.0         | 61.0         | 112.5        | 143.1        | 63.1         | 50.5         | 67.1         | 73.7         |
| Bolivia              | -            | -            | -            | -            | -            | -            | -            | -            | -            | -            |
| Brazil               | 75.2         | 73.2         | 92.4         | 88.3         | 89.0         | 104.1        | 97.0         | 122.2        | 129.0        | 135.8        |
| Chile                | 1.2          | 1.2          | 2.2          | 2.3          | 0.9          | 4.3          | 2.3          | 1.5          | 0.5          |              |
| Colombia             | 2.0          | 1.1          | 3.6          | 7.4          | 9.9          | 15.9         | 15.8         | 20.6         | 25.9         | 36.9         |
| Ecuador              | 0.1          | 0.1          | 0.7          | -            | -            | -            | 4.1          | 24.9         | -            | -            |
| Mexico               | 0.2          | 6.0          | 3.6          | 17.5         | 58.7         | 8.5          | 3.0          | 3.5          | 2.4          | 3.8          |
| Paraguay             | -            | -            | -            | -            | -            | -            | -            | -            | -            | -            |
| Peru                 | 0.2          | 2.0          | 7.9          | 11.8         | 15.3         | 21.3         | 18.4         | 21.0         | 24.1         | 32.9         |
| Uruguay              | 11.9         | 23.4         | 11.0         | 13.0         | 9.9          | 16.1         | 11.3         | 8.4          | 11.6         | 28.4         |
| Venezuela            | -            | -            | 0.1          | 0.1          | 3.0          | 0.1          | 0.4          | -            | 0.3          |              |
| Costa Rica           | -            | -            | -            | -            | 0.2          | 0.6          | -            | 2.5          | 3.5          | 6.7          |
| El Salvador          | -            | -            | -            | -            | 1.4          | 0.1          | -            | 11.7         | 2.6          |              |
| Guatemala            | -            | -            | -            | -            | -            | -            | -            | 2.7          | 0.9          | 0.1          |
| Honduras             | -            | -            | -            | -            | -            | -            | -            | -            | -            |              |
| Nicaragua            | -            | -            | -            | -            | -            | -            | 1.8          | -            | -            |              |
| Dominican Republic   | -            | -            | -            | -            | -            | -            | -            | -            | -            |              |
| Haiti                | -            | -            | -            | -            | -            | -            | -            | -            | -            |              |
| Panama               | -            | -            | -            | -            | -            | -            | -            | -            | -            |              |
| Guyana               | -            | -            | -            | -            | -            | -            | -            | -            | -            |              |
| Jamaica              | -            | -            | -            | -            | -            | -            | -            | -            | -            |              |
| Trinidad and Tobago  | -            | -            | -            | -            | -            | -            | -            | -            | -            |              |
| Cuba                 | 361.5        | 323.8        | 281.2        | 329.4        | 422.6        | 384.7        | 430.6        | 410.9        | (403.4)      | (372.2)      |
| <u>Overall total</u> | <u>504.6</u> | <u>483.6</u> | <u>454.7</u> | <u>530.3</u> | <u>723.4</u> | <u>698.8</u> | <u>697.8</u> | <u>670.3</u> | <u>690.3</u> | <u>690.5</u> |

Source: ECLA.

The main characteristics of the trade structure of the socialist countries are the following:

- (a) Their trade with the developed countries of Western Europe, and more recently with the United States, is based on the export of primary commodities or semi-processed goods (petroleum rails, hides, etc.) and the import of manufactures and industrial equipment with a high technological content (including complete plants);
- (b) In contrast, their trade with the developing countries consists in the import of commodities (raw materials and foodstuffs) <sup>1/</sup> and the export of industrial machinery and equipment, transport equipment and other manufactures.

With a view to modifying the structure of their trade with the socialist countries, certain Latin American countries incorporated clauses in their bilateral trade agreements under which the socialist countries undertook to purchase from them a fixed percentage of manufactures and semi-manufactures. To date, however, such provisions do not appear to have yielded any positive results in practice, except to a small extent in Brazil. Because the socialist countries insist that imports of Latin American manufactures be internationally competitive in both quality and price, it is difficult to gauge the extent to which the socialist countries have really made an effort to shift their purchases of manufactures to Latin America. New operational measures, especially the introduction of a clause allowing amortization payments on complete plants imported from the socialist countries to be made in the form of deliveries of goods produced in those plants, might help to solve the problem, even if it would still be difficult to assess whether or not the products concerned met international standards, except in cases where the plants were processing certain raw materials. It could perhaps be stipulated that payment should be made by the delivery of a certain number of physical units of goods, the value of the industrial equipment and the goods it produced being negotiated at the time the developing country purchased the plant. Even so, there would have to be some provision for making periodic changes or adjustments in the light of fluctuations in world prices for domestically produced or imported inputs, through the establishment of a coefficient for weighting the final cost of the goods produced.

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<sup>1/</sup> Sugar, coffee, cocoa, vegetable fibres, hides and vegetable tanning materials, wool, fish meal, bananas, cereals, ores, oils, etc.

The socialist countries of Eastern Europe are in general agreement that their trade with Latin America is hampered by the fact that the region purchases little from them, thus bringing about the accumulation of trade surpluses that they have difficulty in settling in convertible currency. In this connexion, it should be noted that:

- (a) Only in exceptional cases are the trade surpluses under bilateral payments agreements settled by the socialist countries in gold or foreign currency. It is normally a problem for the creditor country to eliminate the surplus by importing from the socialist countries, which is why surpluses in units of account are very often negotiated with third countries in switching operations, at an exchange discount of up 30 or 40 per cent, which constitutes a net loss to the developing countries concerned, many of which for this reason have ceased to enter into this type of bilateral agreement with the socialist countries.
- (b) In recent years the socialist countries, in particular the USSR, have stopped importing agricultural products (mainly wheat and feed grains) from the Latin American countries on the grounds of foreign exchange difficulties, while at the same time they have made large purchases of the same commodities from the developed countries (Canada, Australia, etc.). The developed countries have considerably larger trade surpluses with the socialist countries than the Latin American suppliers of these commodities (Argentina, Brazil and Mexico). One of the reasons for this shift in purchases may be that the suppliers in the developed countries are able to grant credit facilities which the Latin American countries cannot normally match.

### 3. Trade agreements and their operational machinery

Trade between the Latin American countries and the socialist countries of Eastern Europe is basically governed by bilateral trade agreements <sup>2/</sup>, which usually include the most-favoured-nation clause and serve as a basic framework for specific contracts on export and import transactions. In most cases such trade agreements have been accompanied by bilateral payments agreements establishing the unit of account and a ceiling on reciprocal credit.

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<sup>2/</sup> A list of recent agreements is given in document E/CN.12/L.65, which ECLA submitted to the CECLA meeting at Lima (October 1971).

Settlement of the outstanding balances above the credit ceiling is normally effected in goods, by obliging the creditor country - generally the Latin American country - to purchase completely or partially in freely convertible currency. Some payments agreements also provide for the granting by the socialist country of economic co-operation credit for the purchase of capital goods and industrial equipment or to finance development projects in the public sector. Although this type of credit is made available on apparently very liberal terms as regards repayment periods and interest rates, it has proved difficult to use because certain operational problems have led to delays in its utilization by the beneficiary country, sector or state enterprise to which it is destined.

Among the operational difficulties for which suitable solutions should be found in order to make it possible to expand trade between Latin America and Eastern Europe are the following:

- (i) Transport is irregular and very costly, especially on certain shipping routes;
- (ii) There is little flexibility in banking arrangements for the opening of credit lines, payment of freight charges and insurance, guarantees, etc. These operations are usually handled by the central banks and other state banks in Latin America and by the foreign trade banks in the socialist countries.
- (iii) Public sector enterprises find it difficult to establish effective price comparisons, since the offers from the socialist countries for a particular branch or sector are centralized in a single state enterprise. If it were possible to multilateralize bilateral credit to some extent, at least within the COMECON area, this might facilitate competition between various suppliers and make it easier to compare prices;
- (iv) The socialist countries in general have shown a low level of efficiency and flexibility as regards market penetration, especially among private entrepreneurs in Latin America, who are used to the kind of approach used by salesmen from the developed market-economy countries. Hence, the bulk of trade with the socialist countries is undertaken by public sector enterprises, either directly or through open international bidding.

/(v) Another

- (v) Another problem which often arises in connexion with imports from the socialist countries, particularly imports of machinery and equipment, is that the commercial representatives of the exporting enterprises do not provide any maintenance services, or else provide only very inadequate ones, while spare parts are not available on a regular basis. The public sector usually gets around this problem by including a large proportion of spare parts in each purchase, but this has a definite impact on costs;
- (vi) Technologically, capital goods from the socialist countries are quite different from those obtained from the customary suppliers. This is of key importance when industrial enterprises wish to expand or modernize their equipment.

#### 4. Economic and technical co-operation

A number of economic and technical co-operation agreements between the Latin American countries and the socialist countries of Eastern Europe provide for the participation of enterprises of the socialist countries in major development projects (ports and harbours, hydroelectric power stations, iron and steel enterprises, heavy chemicals industry, etc.). In some of these sectors Latin America's experience as regards the co-operation provided has been good, and there are plans for increased participation by the socialist countries, particularly in the supply and installation of complete industrial plants and the provision of heavy road-making equipment, petroleum equipment, etc. In return, the Eastern European countries should be prepared to promote imports from Latin America of certain manufactures (footwear, household appliances, textiles and ready-made clothing, light metal products, light vehicles, canned and preserved foodstuffs, etc.) to replace goods they are currently importing from other areas, chiefly the developed countries of Western Europe. In this connexion, the preference of consumers in the socialist countries could be directed towards Latin American manufactures by means of suitable publicity and co-operation with regional manufacturers in determining quality standards, methods of presentation, prices, etc. The fact that in recent years importing and trading enterprises in the socialist countries of Eastern Europe have been acting more directly and with more freedom should help towards this end.

Furthermore, the COMECON countries have set as essential objectives the co-ordination of their national plans, and possibly the joint planning of certain sectors, and this should also help to give Latin American

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suppliers a clearer and more detailed idea of the COMECON countries' medium-term and long-term purchasing requirements, so that the countries of the region can harmonize their activities in industrial and trade promotion. To this end, it is necessary for the information on future demand to be as detailed as possible, and the most direct method of securing this would be to conclude medium-term and long-term purchasing agreements.

Showing Latin American manufactures in the international trade fairs held regularly in the socialist countries would be another way of deriving information on the needs and requirements of the socialist markets. In this connexion, the socialist countries might defray all or part of the cost of Latin American participation, either individually or jointly, in such fairs, with a view to improving sales conditions and the final prices of the goods offered for sale.

#### 5. Immediate action

Turning now to the contribution that should be requested from the socialist countries at the third session of UNCTAD, it is considered that, in addition to the points mentioned above in connexion with trade agreements and operational measures, the developing countries, and Latin America in particular, would be interested in the following:

- (a) The socialist countries should make known as soon as possible what specific measures, in accordance with their economic systems and operational machinery, they will apply to bring into effect the generalized system of non-discriminatory preferences in favour of the developing countries;
- (b) They should recognize the importance of and take steps to participate in commodity agreements, particularly with respect to those products for which demand in the socialist countries or knowledge of their consumption potential may be an important factor in stabilizing world markets;
- (c) They should ensure that the financial and technical co-operation they make available to Latin America is granted on terms no less favourable than those accorded to developing countries in other areas, particularly India, Iran, Pakistan and the United Arab Republic.





Chapter IX

MARITIME TRANSPORT

GENERAL CONSIDERATIONS

The Declaration of Lima marks a further step towards the definition of the objectives of developing countries in maritime transport and the formulation of a programme of action with a view to the third session of UNCTAD.

Although the Declaration embodies points from many previous declarations, such as the Charter of Algiers, Charter of Tequendama, various resolutions of UNCTAD and of its Committee on Shipping, and the relevant provisions of the International Development Strategy, it has the advantage of providing the bases for a more complete, realistic and consistent programme for both developed and developing countries.

A study <sup>1/</sup> prepared for the twelfth session of the Special Committee on Latin American Co-ordination (CECLA), which was held at Lima in October 1971, analyses the background and discussions of UNCTAD in some detail, so the present chapter is confined to highlighting and evaluating the main aspects of shipping affecting Latin America.

A. THE MAIN PROBLEMS AFFECTING LATIN AMERICA

Except in part for Mexico, Latin America is a huge island which depends on shipping for its foreign trade. Moreover, notwithstanding the progress made in land transport, the bulk of intraregional trade is and will continue to be carried on by sea for at least the next decade. Hence the obvious importance to the region of the objectives and lines of action set forth in the Declaration of Lima, which cover three main points:

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<sup>1/</sup> E/CN.12/L.64.

(a) The need to develop the Latin American merchant marines to an extent compatible with the region's share in world trade, so that Latin American countries can acquire a larger share in the carriage of their own foreign trade, improve their balance-of-payments position, and facilitate the absorption or adaptation of the important technological innovations taking place in maritime transport;

(b) The continuing and apparently uncontrollable rise in freight rates, which affects foreign trade conditions in the Latin American countries and calls for the adoption of various measures in connexion with freight conference practices, the reduction of shipping costs and the rationalization of the way shipping services are run; and

(c) The problems raised by shipping conference practices and the need for the preparation and application of a code of conduct to protect and safeguard the interests and aspirations of users and shipping lines in developing countries.

The resolutions of UNCTAD II and the Committee on Shipping of UNCTAD largely reflect the aspirations of the Latin American and other developing countries, although they may not represent sufficiently firm commitments on the part of the developed nations. In these circumstances, one of the most important objectives of UNCTAD III will be to approve measures and establish machinery to ensure the practical implementation of those resolutions and decisions. Without prejudice to the specific measures adopted by UNCTAD, it is important that the developing countries, in our case Latin America, should adopt and put into effect the legal or administrative measures required to ensure the implementation of the UNCTAD resolutions and the attainment of the goals established for the Second Development Decade. These measures could be adopted either at the national level or on a co-ordinated basis at the regional or sub-regional level, which would be even more effective. In certain cases or for specific purposes, the shipping companies themselves or bodies representing sea transport users could take action with the co-operation or support, as appropriate, of the Governments concerned.

/B. DEVELOPMENT

### B. DEVELOPMENT AND REPAIRS OF THE LATIN AMERICAN MERCHANT FLEETS

The Latin American countries have, in UNCTAD and other meetings, affirmed their inalienable right to expand their merchant fleets to carry an increasing proportion of their own foreign trade. Statistics show Latin America's unfavourable position in this respect, even compared with other developing regions. Over the period 1955-1970 the share of all developing countries in the tonnage of the world merchant fleet <sup>2/</sup> increased only from 6.6 to 7.6 per cent, reaching a maximum of 7.8 per cent in 1965. Over the same period the share of Latin America and the Caribbean countries dropped from 4.1 per cent in 1955 to 3.1 per cent in 1965 and 2.6 per cent in 1970. Africa's participation doubled (0.3 to 0.6 per cent), as also did Asia's (2.2 to 4.4 per cent) <sup>3/</sup> while their total tonnage increased more than five-fold, compared with Latin America's increase of only 63 per cent. <sup>4/</sup> The 15 developing countries with fleets of over 500,000 deadweight tons on 1 July 1970 included only four Latin American countries: Brazil (2,417,000), Argentina (1,621,000), Mexico (546,000), and Venezuela (524,000). <sup>5/</sup> The Declaration of Lima establishes as the overall target for all developing countries the achievement through the adoption of various lines of action of a minimum share of 10 per cent of the world fleet by 1980. <sup>6/</sup>

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<sup>2/</sup> These figures relate to vessels of 100 gross registered tons and over.

<sup>3/</sup> The figures relate to the developing countries in those regions.

<sup>4/</sup> The world merchant fleet increased by 163 per cent over the period 1955-1970.

<sup>5/</sup> Brazil and Argentina occupied the second and fourth places and Mexico and Venezuela the last two places in this group of countries.

<sup>6/</sup> This target coincides with the hypothesis formulated in the document prepared by the secretariat of UNCTAD for the third session, "Implementation of International Development Strategy in shipping and ports" (TD/103, para. 9).

1. Latin America's share in world maritime trade

To appreciate the full significance of the minimum share established as a target in the Declaration of Lima it is useful to review briefly the evolution of world maritime trade over the decade 1959-1968 (the latest years for which detailed data are available) and the share of Latin America and other developing regions in it (see table 1). Although world maritime trade increased from 2,064 million tons in 1963 to 2,248 million in 1969, and probably rose to 2,500 million tons in 1970, the aggregate participation of developing countries cannot have altered greatly, because of the overwhelming importance of the oil and dry bulk trades. Moreover, since world maritime trade increased by over 20 per cent in volume between 1963 and 1970, while the tonnage of the merchant fleets of developing countries rose by less than 10 per cent, the latter's share of the cargoes carried has presumably declined.

Analysis of world trade (see again table 1) shows the tremendous importance of oil transport by sea. Although the biggest shipments are from developing countries, Latin America's share in this traffic has diminished considerably.

Products carried in bulk represent an increasing proportion of dry-cargo traffic. World shipments of five important bulk commodities (iron ore, coal, grains, phosphates, and bauxite and alumina) amounted to 384 and 419 million tons in 1968 and 1969 respectively, about half of this cargo being iron ore. A considerable proportion of these and other bulk commodities is shipped from developing countries,<sup>2/</sup> but their participation in this trade, and particularly that of Latin America, is slowly but steadily declining. In the period 1959-1968 the total dry cargo loaded and discharged in Latin America and the Caribbean rose from 99 to 167 million tons, while Africa and Asia registered a combined increase from 159 to 295 million tons.

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<sup>2/</sup> In Latin America, bulk commodities proper probably represent 60 per cent of the total cargo shipped in 1968. Data for 1970 show that shipments of iron ore from four countries (Venezuela, Brazil, Chile and Peru) totalled nearly 47 million tons.

Table 1

## THE DEVELOPING COUNTRIES' INTERNATIONAL MARITIME TRADE

(Millions of tons) a/

| Region                          | Cargo loaded                           |                         |                           | Cargo discharged                       |                         |                           |
|---------------------------------|--|-------------------------|---------------------------|--|-------------------------|---------------------------|
|                                 | Crude petroleum and petroleum products | Dry cargo               | Total                     | Crude petroleum and petroleum products | Dry cargo               | Total                     |
| A. 1959                         |  |                         |                           |  |                         |                           |
| Latin America and the Caribbean | 185.9<br>(38.7)                        | 75.5<br>(15.4)          | 261.4<br>(27.2)           | 76.6<br>(16.3)                         | 23.7<br>(4.8)           | 100.2<br>(10.4)           |
| Africa                          | 3.8<br>(0.8)                           | 46.0<br>(9.4)           | 49.8<br>(5.1)             | 19.0<br>(4.0)                          | 23.8<br>(4.8)           | 43.0<br>(4.4)             |
| Asia                            | 233.8<br>(48.6)                        | 45.5<br>(9.3)           | 279.2<br>(28.8)           | 33.4<br>(7.1)                          | 43.7<br>(8.8)           | 77.0<br>(8.0)             |
| <u>World total</u>              | <u>480.6</u><br>(100.0)                | <u>488.8</u><br>(100.0) | <u>969.5</u><br>(100.0)   | <u>468.4</u><br>(100.0)                | <u>498.4</u><br>(100.0) | <u>966.8</u><br>(100.0)   |
| B. 1968                         |  |                         |                           |  |                         |                           |
| Latin America and the Caribbean | 239.7<br>(21.1)                        | 125.7<br>(13.5)         | 365.4<br>(17.8)           | 98.1<br>(8.9)                          | 41.1<br>(4.4)           | 139.2<br>(6.8)            |
| Africa                          | 184.8<br>(16.3)                        | 93.5<br>(10.0)          | 278.3<br>(13.5)           | 29.3<br>(2.6)                          | 32.8<br>(3.5)           | 62.1<br>(3.0)             |
| Asia                            | 570.6<br>(50.3)                        | 81.8<br>(8.8)           | 652.6<br>(31.6)           | 75.5<br>(6.8)                          | 86.4<br>(9.3)           | 162.0<br>(7.9)            |
| <u>World total</u>              | <u>1 134.2</u><br>(100.0)              | <u>929.2</u><br>(100.0) | <u>2 064.4</u><br>(100.0) | <u>1 105.9</u><br>(100.0)              | <u>932.7</u><br>(100.0) | <u>2 038.6</u><br>(100.0) |

a/ The figures in parentheses indicate percentages of the world total.

/The evident

The evident disparity between the volume of goods loaded and discharged in developing countries, with the exception of Asia, is to a great extent, due to the large proportion of bulk commodities exported. Although the situation varies between the main developing regions, and from one country to another within those regions, the dry cargo discharged consists mainly of general cargo carried by liners, which also carry a substantial proportion of developing countries' exports. General cargo represents a much higher proportion in terms of value and freight rates than in terms of volume.

Since the main reason for the small participation of the vessels of developing countries in the growth of world maritime trade is the slow expansion of those countries' merchant fleets, particularly tankers and bulk carriers, the importance attached in the Declaration of Lima to the development of this sector is amply justified.<sup>8/</sup> The participation of all the developing countries together and that of the Latin American countries alone in the world tonnage of different classes of vessels on 1 July 1970 is shown in table 2.

Table 2 shows the relative importance of the tonnage of general cargo vessels belonging to developing countries, including the Latin American countries, particularly if compared with their share in the discharged cargo carried by sea (see table 1). It reveals Latin America's infinitesimal share in the fleet of ore and bulk carriers. It would seem a reasonable minimum target for the region to regain its share of 4.1 per cent of the world tonnage which it had over 15 years ago, i.e., in 1955.

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<sup>8/</sup> See also paragraph 7 of document TD/103.

Table 2

SHARE OF WORLD TONNAGE (GROSS REGISTERED TONS) BY TYPE OF VESSEL ON 1 JULY 1970

(Percentages)

|                                 | Developing<br>countries | Latin<br>America |
|---------------------------------|-------------------------|------------------|
| All vessels                     | 7.6                     | 2.6              |
| Tankers                         | 4.5                     | 2.3              |
| Ore and bulk carriers <u>a/</u> | 5.2                     | 1.1              |
| General cargo vessels           | 14.1                    | 4.2              |
| Container ships                 | -                       | -                |
| Other vessels                   | 5.9                     | 2.4              |

Source: UNCTAD, Review of maritime transport, 1970 (TD/B/C.4/82).

a/ Vessels of 6,000 gross registered tons and over; although this criterion is used in UNCTAD reports, it is perhaps too broad for the classification of bulk vessels proper, which are usually of much larger tonnage.

2. Present state and development prospects of Latin American fleets

According to the latest available data (see table 3), the Latin American countries' share of total world tonnage, after remaining unchanged from 1969 to 1970, declined to 2.4 per cent in 1971. This unfavourable trend is even more marked in the light of the figures in table 4. The total number of vessels on order or in process of building for countries in the region at 31 July 1971 represented only 1.1 per cent of the world tonnage (deadweight) on order or under construction. This low percentage mainly reflects the small proportion of tankers on order or in process of building for Latin American countries. The proportions for conventional cargo vessels and bulk carriers are more favourable. The position of the various countries differs widely, the most significant developments being the considerable increase in Brazil's fleet in recent years and the amount of new tonnage it has on order or in process of building. Fairly sizeable tonnages are also on order or under construction for some other countries in the region, including Peru. It is worth noting, moreover, that 67 per cent of the tonnage on order or in process of building for the Brazilian fleet is being produced by the Brazilian shipbuilding industry, which has reached an advanced stage of development and comprises 35 shipyards for building and repairing vessels, although three big shipyards account for 75 per cent of the total building capacity. A Brazilian Government programme for the period 1971-1975 provides for the building of 1.7 million tons deadweight. Argentina's development plan for the same period which covers the building of 1.2 million tons deadweight, is designed to raise the participation of its fleet in the carriage of its own foreign trade from 17 per cent in 1969 to 33 per cent in 1975.

/Table 3



Table 3

LATIN AMERICA: MERCHANT FLEET AT 1 SEPTEMBER 1971 a/

| Country  | Total           |                       | Dry-cargo vessels |                       | Tankers         |                       |
|--|-----------------|-----------------------|-------------------|-----------------------|-----------------|-----------------------|
|  | Number of ships | Gross registered tons | Number of ships   | Gross registered tons | Number of ships | Gross registered tons |
| Argentina  | 179             | 1 151 075             | 115               | 657 288               | 64              | 493 787               |
| Brazil   | 319             | 1 772 060             | 261               | 1 203 227             | 58              | 568 833               |
| Chile  | 64              | 395 608               | 55                | 284 858               | 9               | 110 750               |
| Colombia   | 41              | 201 032               | 38                | 186 640               | ...             | ...                   |
| Ecuador  | 12              | 42 886                | 8                 | 39 276                | ...             | ...                   |
| Mexico   | 58              | 357 914               | 36                | 133 907               | 22              | 224 007               |
| Paraguay   | 20              | 18 432                | ...               | ...                   | ...             | ...                   |
| Peru   | 61              | 345 450               | 48                | 257 608               | 13              | 87 842                |
| Uruguay  | 26              | 153 317               | 20                | 82 187                | 6               | 71 130                |
| Venezuela  | 59              | 386 220               | 39                | 120 302               | 20              | 265 918               |
| Costa Rica   | 7               | 4 566                 | ...               | ...                   | ...             | ...                   |
| Cuba   | 61              | 307 708               | 55                | 287 329               | ...             | ...                   |
| Dominican Republic                                 | 11              | 16 114                | ...               | ...                   | ...             | ...                   |
| Guatemala  | 2               | 3 629                 | ...               | ...                   | ...             | ...                   |
| Nicaragua  | 7               | 16 857                | ...               | ...                   | ...             | ...                   |
| Barbados   | 2               | 995                   | ...               | ...                   | ...             | ...                   |
| Jamaica  | 3               | 12 253                | ...               | ...                   | ...             | ...                   |
| Trinidad and Tobago                                | 10              | 16 639                | ...               | ...                   | ...             | ...                   |
| <u>Total</u>                                       | <u>942</u>      | <u>5 502 755</u>      | <u>675</u>        | <u>3 252 622</u>      | <u>192</u>      | <u>1 822 267</u>      |
| <u>World total</u>                                 | <u>29 315</u>   | <u>232 305 726</u>    | <u>23 157</u>     | <u>134 207 245</u>    | <u>6 158</u>    | <u>98 098 381</u>     |
| Total Latin America as a percentage of world total | 3.2             | 2.4                   | 2.9               | 2.4                   | 3.1             | 1.9                   |

/Table 4

1  
299  
1Source: Institute of Shipping Economics, *Shipping Statistics*, Bremen, October 1971.

a/ Only vessels of 300 gross registered tons and over.

Table 4

## LATIN AMERICA: VESSELS ON ORDER OR IN PROCESS OF BUILDING, BY TYPES, AT 31 JULY 1971 a/

| Country                    | Dry-cargo vessels |                  | Tankers         |                   | Bulk carriers   |                   |                     |                   | Passenger vessels |                 | Container vessels |                  | Other vessels   |                 | Total           |                    |         |
|----------------------------|-------------------|------------------|-----------------|-------------------|-----------------|-------------------|---------------------|-------------------|-------------------|-----------------|-------------------|------------------|-----------------|-----------------|-----------------|--------------------|---------|
|                            | Number of ships   | Tons deadweight  | Number of ships | Tons deadweight   | OO/OBO b/       |                   | Other bulk carriers |                   | Number of ships   | Tons deadweight | Number of ships   | Tons deadweight  | Number of ships | Tons deadweight | Number of ships | Tons deadweight    |         |
|                            |                   |                  |                 |                   | Number of ships | Tons deadweight   | Number of ships     | Tons deadweight   |                   |                 |                   |                  |                 |                 |                 |                    |         |
|                            |                   |                  |                 |                   |                 |                   | A. Total            |                   |                   |                 |                   |                  |                 |                 |                 |                    |         |
| Argentina                  | 21                | 212 450          | 1               | 4 750             | -               | -                 | -                   | -                 | -                 | -               | -                 | -                | 2               | 9 500c/         | 22              | 219 200            |         |
| Brazil                     | 53                | 469 990          | 8               | 128 300           | 1               | 265 300           | 6                   | 216 700           | -                 | -               | -                 | -                | -               | -               | (2)             | 9 500              |         |
| Chile                      | -                 | -                | -               | -                 | -               | -                 | -                   | -                 | -                 | -               | -                 | -                | -               | -               | 58              | 1 080 290c/        |         |
| Colombia                   | 8                 | 59 500           | -               | -                 | -               | -                 | -                   | -                 | -                 | -               | -                 | -                | -               | -               | 8               | 59 500             |         |
| Mexico                     | 1                 | 12 500           | -               | -                 | -               | -                 | -                   | -                 | -                 | -               | -                 | -                | -               | -               | 1               | 12 500             |         |
| Peru                       | 2                 | 26 000           | -               | -                 | -               | -                 | 13                  | 200 000           | -                 | -               | -                 | -                | -               | 2               | 7 000c/         | (2)                | 7 000c/ |
| Uruguay                    | -                 | -                | 1               | 30 000            | -               | -                 | -                   | -                 | -                 | -               | -                 | -                | -               | -               | 1               | 30 000             |         |
| Venezuela                  | -                 | -                | -               | -                 | -               | -                 | -                   | -                 | 1                 | 1 100c/         | -                 | -                | -               | -               | (1)             | 1 100c/            |         |
| Cuba                       | -                 | -                | 3               | 48 900            | -               | -                 | -                   | -                 | -                 | -               | -                 | -                | -               | -               | 3               | 48 900             |         |
| <b>Total</b>               | <b>85</b>         | <b>782 440</b>   | <b>13</b>       | <b>211 950</b>    | <b>1</b>        | <b>265 300</b>    | <b>19</b>           | <b>496 700</b>    | <b>1</b>          | <b>1 100c/</b>  | -                 | -                | <b>6</b>        | <b>23 360c/</b> | <b>118</b>      | <b>1 756 390</b>   |         |
| <b>World total</b>         | <b>1 240</b>      | <b>9 896 813</b> | <b>808</b>      | <b>91 763 715</b> | <b>185</b>      | <b>27 587 089</b> | <b>693</b>          | <b>28 629 319</b> |                   |                 | <b>215</b>        | <b>4 283 509</b> |                 |                 | <b>3 241</b>    | <b>162 160 445</b> |         |
| Percentages of world total |                   | 7.9              |                 | 0.2               |                 |                   | 1.0                 |                   |                   |                 |                   |                  |                 |                 |                 | 1.1                |         |
|                            |                   |                  |                 |                   |                 |                   | B. In the country   |                   |                   |                 |                   |                  |                 |                 |                 |                    |         |
| Argentina                  | 14                | 140 900          | 1               | 4 750             | -               | -                 | -                   | -                 | -                 | -               | -                 | -                | (2)             | 9 500c/         | 15              | 145 650            |         |
| Brazil                     | 45                | 392 390          | 7               | 114 300           | -               | -                 | 6                   | 216 700           | -                 | -               | -                 | -                | -               | -               | (2)             | 9 500c/            |         |
| Chile                      | -                 | -                | -               | -                 | -               | -                 | -                   | -                 | -                 | -               | -                 | -                | -               | -               | 58              | 723 390            |         |
| Colombia                   | -                 | -                | -               | -                 | -               | -                 | -                   | -                 | -                 | -               | -                 | -                | -               | -               | -               | -                  |         |
| Mexico                     | -                 | -                | -               | -                 | -               | -                 | -                   | -                 | -                 | -               | -                 | -                | -               | -               | -               | -                  |         |
| Peru                       | -                 | -                | -               | -                 | -               | -                 | -                   | -                 | -                 | -               | -                 | -                | -               | -               | -               | -                  |         |
| Uruguay                    | -                 | -                | -               | -                 | -               | -                 | -                   | -                 | -                 | -               | -                 | -                | -               | -               | -               | -                  |         |
| Venezuela                  | -                 | -                | -               | -                 | -               | -                 | -                   | -                 | -                 | -               | -                 | -                | -               | -               | -               | -                  |         |
| Cuba                       | -                 | -                | -               | -                 | -               | -                 | -                   | -                 | -                 | -               | -                 | -                | -               | -               | -               | -                  |         |
| <b>Total Latin America</b> | <b>52</b>         | <b>533 290</b>   | <b>8</b>        | <b>119 050</b>    | -               | -                 | <b>6</b>            | <b>216 700</b>    | -                 | -               | -                 | -                | <b>(2)</b>      | <b>9 500c/</b>  | <b>73</b>       | <b>869 040</b>     |         |
|                            |                   |                  |                 |                   |                 |                   |                     |                   |                   |                 |                   |                  |                 |                 | <b>(2)</b>      | <b>9 500</b>       |         |

Source: Fairplay, 26 August 1971.

a/ Only vessels of 1,000 tons deadweight and over.

b/ OO: Ore/oil carriers; OBO: Ore/bulk/oil carriers.

c/ Gross registered tons.

According to

According to the latest issue of the yearbook La Marina Mercante Iberoamericana, on 1 January 1971 the Latin American fleets comprised 702 vessels totalling 4,573,000 gross registered tons, of which 331 vessels (2,773,000 gross registered tons) were engaged in overseas traffic and the rest mainly in coastal traffic within a country or the region. Of the total tonnage, 30.3 and 26.2 per cent were accounted for by Brazil and Argentina, followed by a group of seven countries (Chile, Venezuela, Cuba, Mexico, Peru, Colombia and Uruguay) whose shares ranged in descending order from 7.8 per cent for Chile to 3.1 per cent for Uruguay. The rest of the Latin American countries had shares of 1 per cent or less. The Latin American overseas fleet consisted mainly of cargo liners (1,464,000 gross registered tons), tankers (726,000 gross registered tons), bulk carriers (225,000 gross registered tons) and parcel bulk carriers (139,000 gross registered tons). The increase in the tonnage of parcel bulk carriers is perhaps the most heartening aspect of the present situation,<sup>9/</sup> in spite of their minimal importance in the world setting. The picture becomes gloomier, however, when it is considered that the age of the ships in the Latin American fleet averaged 12.9 years<sup>10/</sup> at the beginning of 1971. It should be borne in mind that a vessel's useful economic life is generally about 20 years. However, the average use of the Latin American fleets varies considerably from country to country (see table 5).

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<sup>9/</sup> The data supplied by the Instituto de Estudios de la Marina Mercante Iberoamericana (IEMMI) include only vessels of 1,000 gross registered tons and over, which accounts for the difference between these figures and those in table 3.

<sup>10/</sup> At the beginning of 1969 and 1970, respectively, the average ages were 13.9 and 13.3 years. It should be pointed out, however, that the average age of the high seas fleet was 9.7 years, compared with 17.1 years for the coastal fleet.

Table 5

AVERAGE AGE OF LATIN AMERICAN FLEETS AT 1 JANUARY 1971

(Years)

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|           |      |                    |      |
|-----------|------|--------------------|------|
| Brazil    | 9.3  | Uruguay            | 18.1 |
| Argentina | 19.4 | Ecuador            | 9.5  |
| Chile     | 10.9 | Paraguay           | 9.1  |
| Venezuela | 14.3 | Nicaragua          | 19.7 |
| Cuba      | 9.7  | Guatemala          | 12.5 |
| Mexico    | 7.5  | Dominican Republic | 30.4 |
| Peru      | 11.5 | El Salvador        | 27.0 |
| Colombia  | 11.7 |                    |      |

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Source: Instituto de Estudios de la Marina Mercante Iberoamericana, La Marina Mercante Iberoamericana, Buenos Aires, 1971.

/Data for

Data for the developing countries as a whole, tabulated by the UNCTAD secretariat, also show that their situation as regards age of fleets is much less favourable than for the other countries of the world,<sup>11/</sup> and this is reflected in the poorer quality and lower efficiency of the services. According to the Instituto de Estudios de la Marina Mercante Iberoamericana, 108 vessels totalling 1,300,000 gross registered tons were on order or being built for Latin American countries, on 1 January 1971, 767,000 and 160,000 tons of this total being for Brazil and Argentina respectively. Of the total of 1.3 million tons mentioned, 784,000 gross registered tons were on order or being built in foreign shipyards and 516,000 in Latin American shipyards: Brazil (386,000), Argentina (108,000) and Peru (21,000).

By extrapolation of the growth trend registered in the previous decade, UNCTAD<sup>12/</sup> arrived at the assumption that the world fleet would be about 650 million tons deadweight in 1980, i.e., it would have doubled in ten years.<sup>13/</sup> This assumption obviously depends on the growth of world maritime trade and on possible changes in its physical and geographical structure. Although in the 1960s there was a very close correlation between the growth of shipping tonnage and of the physical volume of maritime traffic, accelerated technological progress in the present decade, particularly in dry-cargo transport, could well mean that maritime tonnage will increase less than the physical volume of trade. In any case, however, these figures illustrate the magnitude of the problem.

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<sup>11/</sup> On 1 July 1970, 24 per cent of the tonnage of the developing countries was over 20 years old, compared with 10 to 11 per cent for the developed countries.

<sup>12/</sup> "Implementation of International Development Strategy in Shipping and Ports" (TD/103, para. 3).

<sup>13/</sup> These 650 million tons deadweight are equivalent to approximately 430 million gross registered tons.

/Assuming that

Assuming that in 1980 the developing countries attain the minimum proportion of 10 per cent of the world fleet, their vessels would total about 65 million tons deadweight, or 43 million gross registered tons. Of the major developing regions, Africa had 0.6 per cent of the world tonnage in terms of gross registered tons in 1970, Asia 4.4 per cent and Latin America 2.6 per cent. On the assumption that Africa increases its share to 1.5 per cent by 1980<sup>14/</sup> and that the present relationship between the tonnages of Asia and Latin America remains unchanged, the participation of these two regions in the overall minimum target of 10 per cent would be 5.4 and 3.1 per cent respectively. In Latin America's case this would give it the same participation as in 1965. For it to regain the 4.1 per cent share in the world fleet which it had in 1955, the overall minimum target should be raised to 12 or 13 per cent.

The growth of the Latin American fleet, which would amount to 26.7 million tons deadweight in 1980 (17.6 million gross registered tons) if the 4.1 per cent target were attained, should be accompanied by a radical change in its composition, with an increase in the proportion of bulk carriers and tankers and limitation of the increase in the tonnage of traditional cargo liners.

In July 1970 Latin America accounted for 2.8 per cent of the world fleet of dry-cargo vessels, including bulk carriers,<sup>15/</sup> and 2.3 per cent of the world fleet of tankers. Within the overall 4.1 per cent target, it seems reasonable to set a target of 4.2 per cent for Latin America's participation in the world transport of dry cargo, which would represent a 50 per cent increase over the present proportion. The increase of about

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<sup>14/</sup> Africa doubled its participation (0.3 to 0.6 per cent) in the period 1955-1970.

<sup>15</sup> 4.2 per cent of general cargo vessels, 1.1 per cent of ore and bulk carriers and 2.4 per cent of other less important vessels.

11 million gross registered tons could be divided into 4.5 million tons for ore and bulk carriers and 6.5 million for general cargo vessels, including a suitable tonnage, which would be the subject of special studies, for container vessels, pallet ships, multi-purpose cargo ships, LASH system ships, etc. The above assumption suggests a fleet of tankers of 6.6 million gross registered tons, or 4 per cent of the world tonnage, as against the present 2.3 per cent.

The available data do not enable a clear distinction to be made between the tonnage of shipping used for foreign trade, including overseas and regional traffic, and coastal traffic proper. In some Latin American countries like Argentina and Brazil a fairly substantial proportion of the total tonnage is used in regional or national coastal traffic. The growth target suggested for the Latin American fleet, which could be even higher for the overseas trade, would entail considerable investment, particularly since a good deal of the existing tonnage will have to be replaced during the present decade. On the assumption that it would be necessary to replace about one-third of the existing vessels on account of obsolescence, the total tonnage to be built and purchased would amount to about 14 million gross registered tons or 21 million tons deadweight for the various types of vessels. This would mean an investment of some 6,000 to 7,000 million dollars, in view of the high cost of building the most modern types of ships mentioned above. A much lower investment would be required, however, if it were possible to buy second-hand modern ships, a policy which raises several questions that were examined in an UNCTAD report.<sup>16/</sup> In 1970 additions to the Latin American fleets comprised 34 new vessels and 33 second-hand ships, totalling 373,000 and 279,000 gross registered tons respectively.<sup>17/</sup> The 4.1 per cent target would mean adding an average of 1.4 million gross registered tons annually, i.e., rather more than twice the total tonnage acquired in 1970, and increasing the proportion of new vessels.

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<sup>16/</sup> "Implementation of International Development Strategy in shipping and ports" (TD/103), paras. 13 et seq. and 24.

<sup>17/</sup> Of this total, Brazil acquired 270,000 gross registered tons, made up virtually entirely of new vessels.

### 3. Financial co-operation for the acquisition of ships

In the Declaration and Principles of the Action Programme of Lima, it is stated that the developed countries and international financial institutions should substantially increase their financial assistance to developing countries to enable the latter to acquire new and second-hand ships so that they can achieve the aim of expanding their merchant marines. This aim had already been the subject of extensive discussions and resolutions taken at the second session of UNCTAD and in the Committee on Shipping.<sup>18/</sup> What is desired is essentially: (i) the review and modification of the "Understanding on Export Credits for Ships" signed in May 1969 by certain member countries of OECD; (ii) the earmarking by the developed countries of an adequate portion of their shipbuilding capacity for the sale of ships to the developing countries on a preferential basis; and (iii) the expansion of co-operation by international financial institutions. To date, the assistance given by such institutions to the developing countries in the sphere of shipping has been negligible, except for assistance in respect of the modernization and expansion of ports.

### 4. Development and expansion of shipbuilding industries in developing countries

There would appear to be good prospects for the development of shipbuilding during the 1970s in the developing countries, at least in respect of certain types of ships. At the present time, around 95 per cent of the world's shipbuilding capacity is concentrated in the developed countries. At the end of the third quarter of 1971 the total tonnage on order in the world's shipyards, including ships under construction, was 84 million gross registered tons,<sup>19/</sup> made up mostly of dry-cargo ships, tankers and carriers. Of this total, 32.7 million tons was on order in Japanese shipyards, while various European countries had orders of between 3 and 6 million tons, according to country.<sup>20/</sup> The tonnage on order in Latin American shipyards is shown in table 6.

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<sup>18/</sup> In this connexion, see the summary and references to relevant reports and resolutions in ECLA, "El transporte marítimo" (E/CN.12/L.64), pages 22-23.

<sup>19/</sup> According to data of the Institute of Shipping Economics in Shipping Statistics (Bremen, November 1971).

<sup>20/</sup> In several of these European countries, shipbuilding is facing economic and financial difficulties. In the shipyards of the United States, the tonnage under construction or on order came to barely 2 million grt.



Table 6

SHIPS ON ORDER IN LATIN AMERICA SHIPYARDS AT 30 SEPTEMBER 1971 a/

(Ships of 100 grt and over)

|              | Under construction |                | Not yet begun |                | Total      |                |
|--------------|--------------------|----------------|---------------|----------------|------------|----------------|
|              | Units              | grt            | Units         | grt            | Units      | grt            |
| Argentina    | 24                 | 84 260         | 9             | 89 100         | 33         | 173 360        |
| Brazil       | 31                 | 220 398        | 31            | 310 256        | 62         | 530 654        |
| Chile        | 2                  | 285            | -             | -              | 2          | 285            |
| Mexico       | 59                 | 6 700          | 14            | 1 560          | 73         | 8 260          |
| Peru         | 46                 | 33 101         | 10            | 34 275         | 56         | 67 376         |
| <u>Total</u> | <u>162</u>         | <u>344 744</u> | <u>64</u>     | <u>438 191</u> | <u>226</u> | <u>779 935</u> |

a/ These data do not tally with those of table 4, as they are taken from different sources and correspond to different dates.

/Precise data

Precise data are not available on the construction potential of Latin American shipyards in terms of gross registered tons or deadweight tons (dwt), since this depends both on the nature of the shipyards and the tonnage of the ships constructed. However, it may be estimated that 70 per cent of current capacity is held by Brazil, rather more than 20 per cent by Argentina, and the rest by Peru and Mexico.

The shipbuilding industry in Latin America has been the subject of various studies <sup>21/</sup> connected with the process of regional integration. The first sectoral meeting of the shipbuilding industries of the LAFTA countries was held in Montevideo in May 1971. Stress was laid on achieving the fullest possible future complementarity in this sector, the development of which is based on the use of rapidly evolving and complex technology. In view of the great contribution that the co-ordinated expansion of the shipbuilding industry of the Latin American countries could make to the growth of their merchant marines, this sector requires more thorough analysis, taking into account regional and subregional aspects. Although an excessive dispersion and proliferation of shipyards would be uneconomic, a certain amount of specialization is also needed, to cope with the growing variety of ships and other craft, for both sea and river transport. In addition to the shipbuilding industry, attention should be given, because of their importance, to the development of the maintenance and ship repair industries, both of which are closely bound up with a wide variety of high-technology supplier and complementary industries. The maintenance and repair abroad of ships belonging to the merchant marines of the region accounts for a large outflow of foreign exchange, which could be avoided and even transformed into a source of income if the region possessed a shipbuilding industry that was capable of providing adequate services for the foreign ships operating to and from Latin America.

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<sup>21/</sup> See LAFTA, La industria naval en los países de la ALALC, vols. I and II (July 1970), and Supplement (March 1971).

5. Impact of shipping on the balance of payments

The Declaration and Principles of the Action Programme of Lima and the International Development Strategy stress the objective of increasing the earnings of developing countries from maritime transport in order to reduce the net outflow of foreign exchange from those countries arising from maritime transport. It is a question not only of increasing the share of the developing countries in the carriage of their own goods, but also of enabling their shipowners "to compete in the international freight market"<sup>22/</sup> and of obtaining an adequate share in maritime transport between third countries, an aspect that assumes considerable significance in the case of bulk carriers and tankers. In this connexion, the Lima Declaration states that "special preferences should be given to tankers and bulk carriers owned by developing countries for the transportation of cargo exported to or imported from developed countries and for chartering by industrial companies in developed countries. Governments of developed countries should also urge other charterers to lay a special emphasis on granting charters to tramps, bulk carriers and tankers owned by developing countries on equal terms with all other ships". In the same connexion, an UNCTAD report <sup>23/</sup> points out that tramps, bulk carriers and oil tankers, even when used mainly to carry cargoes generated by the foreign trade of their countries, may spend part of their time on general international trade routes. In a broader context, the Lima Declaration states that a thorough study should be made through the regional economic commissions and UNCTAD of all economic, technological and organizational progress in shipping, with particular reference to developing countries, before final decisions are made by national authorities, particularly with regard to the modernization and expansion of their fleets.

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<sup>22/</sup> See paragraph 53 (c) of the International Development Strategy for the Second Development Decade.

<sup>23/</sup> UNCTAD, "Implementation of International Development Strategy in shipping and ports" (TD/103).

/As regards

As regards the incidence of transport activities on the balance of payments, table 7 gives data on all kinds of transport, including transport by air, river and land, although most of the figures are concerned with maritime transport. In 1970, the region's total transport deficit was around 980 million dollars, most of which was accounted for by freight costs.<sup>24/</sup> The total transport deficit in 1961 was 615 million dollars, 525 million of which was accounted for by freight costs.<sup>25/</sup> The item "other transport items", where there was a deficit of 139 million dollars in 1970 as against 65 million in 1961, includes a wide variety of transactions such as port expenses incurred by Latin American ships in foreign ports and by foreign ships in Latin American ports, loading and unloading, repairs, provisioning, fuel, charters of vessels, air and sea passenger fares, etc. The increase in the freight account deficit between 1961 and 1970 is largely explained by the rise of about 30 per cent in liner freight rates over that period.<sup>26/</sup> Latin American credits in the freight account rose from 220 million to barely 275 million dollars between 1961 and 1970, which leads to the assumption - bearing in mind the increases in freight rates recorded during that period - that the overall share of Latin American ships in the carriage of the region's export cargoes has diminished: a fact explained by the great importance of oil and various bulk cargoes in exports.<sup>27/</sup>

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<sup>24/</sup> The merchandise insurance deficit is estimated to amount to less than 10 per cent of the freight deficit.

<sup>25/</sup> See ECLA, Economic Survey of Latin America, 1969 (United Nations publication, Sales N° E.71.II.G.1), table 241.

<sup>26/</sup> Table 7 covers twenty-two countries, as against nineteen countries for which data were available in 1961.

<sup>27/</sup> "Credits" include freight charges collected for the carriage of exports and for the transport of goods between third countries; the latter item is of real importance only in the case of the Flota Mercante Grancolombiana. "Debits" include freight charges paid for the carriage of imports in foreign ships.

Table 7

LATIN AMERICA: ROLE OF TRANSPORT IN THE BALANCE OF PAYMENTS, 1970  
(Millions of dollars)

| Country             | Freight and insurance |          | Other transport items |        | Total    |          |
|---------------------|-----------------------|----------|-----------------------|--------|----------|----------|
|                     | Credit                | Debit    | Credit                | Debit  | Credit   | Debit    |
| Argentina           | 47.0 e/               | 120.0 e/ | 106.0                 | 125.0  | 153.0 e/ | 245.0 e/ |
| Bolivia             | -                     | 39.9     | 1.7                   | 5.4    | 1.7      | 45.3     |
| Brazil              | 92.0                  | 125.0    | 72.0                  | 195.0  | 164.0    | 320.0    |
| Chile b/            | 12.1 c/               | 51.5 e/  | 26.0                  | 26.0   | 38.1     | 77.5     |
| Colombia            | 49.0                  | 77.0     | 48.0                  | 53.0   | 97.0     | 130.0    |
| Costa Rica          | 3.0                   | 27.7     | 8.0                   | 6.5    | 11.0     | 34.2     |
| Dominican Republic  | 5.0                   | 33.0     | 4.0                   | 6.0    | 9.0      | 39.0     |
| Ecuador b/          | -                     | 29.3     | 1.0                   | 8.9    | 1.0      | 38.2     |
| El Salvador         | -                     | 19.0 e/  | 2.8                   | 6.8    | 2.8      | 25.8     |
| Guatemala           | 0.9                   | 25.3     | 10.0                  | 10.1   | 10.9     | 35.4     |
| Guyana              | 0.6                   | 20.0 e/  | 3.3                   | 3.6    | 3.9      | 23.6     |
| Haiti               | 0.6                   | 7.8      | 0.9                   | 1.4    | 1.5      | 9.2      |
| Honduras            | 1.0                   | 19.4     | 4.1                   | 1.2    | 5.1      | 20.6     |
| Jamaica             | 4.7                   | 69.0     | 23.8                  | 16.9   | 28.5     | 85.9     |
| Mexico b/           | 8.0 e/                | 41.0 e/  | 34.0                  | 49.0   | 42.0     | 90.0     |
| Nicaragua           | 4.7                   | 13.0     | 5.0                   | 11.2   | 9.7      | 24.2     |
| Panama              | -                     | 33.5     | 27.0                  | 11.5   | 27.0     | 45.0     |
| Paraguay            | 1.2                   | 7.9      | 1.3                   | 1.1    | 2.5      | 9.0      |
| Peru                | 22.0                  | 78.0     | 45.0                  | 43.0   | 67.0     | 121.0    |
| Trinidad and Tobago | -                     | 60.0     | 58.1                  | 19.9   | 58.1     | 79.9     |
| Uruguay d/          | 1.1                   | 19.9     | 3.1                   | 7.9    | 4.2      | 27.8     |
| Venezuela           | 22.0                  | 196.0    | 35.0                  | 50.0   | 57.0     | 246.0    |
| Total               | 274.2                 | 1 113.2  | 520.1                 | 659.4  | 795.0    | 1 772.6  |
| Balance             |                       | -833.3   |                       | -139.3 |          | -277.6   |

Source: International Monetary Fund, Balance of Payments Yearbook, 1970.

e/ EIA estimate.

b/ 1969 - IMF.

c/ 1967, maritime transport only.

d/ 1968 - IMF.

/Data on

Data on the role of transport transactions in the balance of payments of Latin American countries should be treated with caution, and central banks and the various maritime and statistical authorities should give urgent attention to the preparation of detailed and precise data on such an important item. ECLA estimates indicate that total maritime freight costs <sup>28/</sup> in connexion with the foreign trade of the region amounted to about 2,800 million dollars in 1967, <sup>29/</sup> including 1,900 million for exports and 850 million for imports. The total freight charges collected by Latin American ships for the carriage of exports and imports of the region were estimated at around 350 million dollars in 1967, that is to say, an overall share of only 13 per cent. The share was much greater in the case of imports (25 per cent) than exports (7 per cent) (see table 8). The percentages differed considerably from country to country and do not of course coincide with the proportion of cargoes transported by Latin American ships in terms of weight. The percentage shares seem to have varied very little for most countries since 1967. In respect of Brazil, complete data are available for the period 1967-1970 (see table 9). When evaluating the data in table 9, the considerable growth of Brazilian foreign trade during the period 1967-1970 must be borne in mind. For the latter year, freight charges represented 10.9 per cent of the c.i.f. value of imports and 13.3 per cent of the f.o.b. value of exports.

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<sup>28/</sup> Including charges for transport of goods by conference lines and other shipping (tankers, bulk carriers, etc.); see Economic Survey of Latin America, 1969 (United Nations publication, Sales N° E.71.II.G.1), table 242.

<sup>29/</sup> Estimates are bound to be uncertain, owing to the difficulty of obtaining data on the freight charges of shipping lines and the sometimes very sharp fluctuations in the freight rates and transport costs for tankers, bulk carriers, tramp ships, etc.

Table 8

FREIGHT CHARGES COLLECTED BY LATIN AMERICAN SHIPS IN  
THE FOREIGN TRADE OF THE REGION, 1967

(Percentages of total freight charges paid)

|                                | Freight charges<br>for imports | Freight charges<br>for exports |
|--------------------------------|--------------------------------|--------------------------------|
| Argentina                      | 25                             | 9                              |
| Brazil                         | 42                             | 16                             |
| Chile                          | 25                             | 13                             |
| Colombia                       | 27                             | 5                              |
| Costa Rica                     | 8                              | 2                              |
| Dominican Republic             | -                              | 17                             |
| Ecuador                        | 24                             | 6                              |
| Guatemala                      | -                              | 1                              |
| Honduras                       | 4                              | -                              |
| Mexico                         | 23                             | 5                              |
| Nicaragua                      | 18                             | 14                             |
| Paraguay                       | 31                             | 18                             |
| Peru                           | 19                             | 3                              |
| Uruguay                        | 37                             | 15                             |
| Venezuela                      | 23                             | 6                              |
| <u>Total (19 countries) a/</u> | <u>25</u>                      | <u>2</u>                       |

a/ According to the available data, Bolivia, El Salvador, Haiti and Panama had no share in the carriage of their foreign trade.

/Table 9

Table 9

SHARE OF THE BRAZILIAN MERCHANT FLEET IN THE CARRIAGE OF BRAZIL'S FOREIGN TRADE

|   | 1967         | 1968         | 1969         | 1970         |
|---|--------------|--------------|--------------|--------------|
| <u>(a) Total freight charges paid to ships of all flags</u> |              |              |              |              |
| <u>(millions of dollars)</u>                                |              |              |              |              |
| Exports   | 207.0        | 234.0        | 275.9        | 365.4        |
| Imports   | 219.7        | 261.2        | 256.5        | 309.3        |
| <u>Total</u>  | <u>426.7</u> | <u>495.2</u> | <u>532.4</u> | <u>674.7</u> |
| <u>(b) Share of the Brazilian merchant fleet</u>            |              |              |              |              |
| <u>(percentages)</u>  |              |              |              |              |
| <u>(i) Own ships</u>  |              |              |              |              |
| Exports   | 11.8         | 9.4          | 8.4          | 10.4         |
| Imports   | 14.1         | 15.4         | 17.9         | 20.6         |
| <u>Total</u>  | <u>13.0</u>  | <u>12.5</u>  | <u>13.0</u>  | <u>15.1</u>  |
| <u>(ii) Chartered ships a/</u>                              |              |              |              |              |
| Exports   | 4.4          | 7.4          | 12.6         | 11.3         |
| Imports   | 28.4         | 28.4         | 32.4         | 35.9         |
| <u>Total</u>  | <u>16.7</u>  | <u>18.5</u>  | <u>22.2</u>  | <u>22.5</u>  |

Source: National Directorate of the Merchant Marine (SUNAMAM), Brazil, March 1971. Revista ALAMAR (May 1971).

a/ Account should also be taken of the payments (debits) corresponding to charters of foreign ships.



## 6. Technological progress in shipping

In previous paragraphs reference was made to the importance of the technological progress made in shipping during the 1960s. There is no doubt that, if this process of intense and rapid technological innovation continues during the 1970s, there will be a radical transformation of traditional economic and institutional structures in this sector. Hence the emphasis placed on this aspect by the Lima Declaration and the considerable impact it may have on the conditions of transport of the foreign trade of developing countries and on policies for the development and expansion of their merchant marines.

In addition to the growing size and tonnage of ships (particularly bulk carriers and tankers), the increasing use of automation techniques in the operation of ships, and the growing variety of special ships for the transportation of specific cargoes, particular progress has been made in what are known as cargo unitization techniques.<sup>30/</sup> The major techniques of this kind and the new types of ships required are as follows:

- (i) pre-slinging of cargoes in conventional cargo ships;
- (ii) palletization of cargoes (pallet ships);
- (iii) roll-on/roll-off vessels;
- (iv) containers and container ships; and
- (v) barge-carrying vessels, especially Lighter Aboard Ship (LASH) vessels.

Several types of composite ships are also being developed, such as cargo ships that transport pre-slung general cargo, palletized cargo and containers; barge-carrying vessels that also carry palletized cargo

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<sup>30/</sup> See UNCTAD, Unitization of cargo (document presented at the fifth session of the Committee on Shipping) (United Nations publication, Sales N° E.71.II.D.2); and ECLA, document E/CN.12/L.64, presented at the meeting of CECLA held in Lima, October 1971.

/and containers;

and containers; so-called multi-purpose ships specially adapted to the transport of specific cargoes, such as palletized cargo and containers; etc. Up to now, these new techniques - especially the use of container ships - have been applied mainly on routes between the developed countries (North America - Europe - Japan - Australia),<sup>31/</sup> but a United States shipping company (Delta Line) has contracted for the purchase of 3 LASH vessels, which will enter into service in 1973 and will carry both lighters and containers between the United States (Gulf of Mexico) and the Caribbean and the eastern seaboard of South America. Another United States line (Prudential-Grace) plans in the near future to start a regular service of LASH vessels between the United States (Atlantic Coast) and South America (Pacific Coast).

The trend towards greater unitization of cargo in the region could gather speed in the 1970s, in the light of certain estimates regarding the proportion of cargoes that would lend themselves to economic transportation in containers in Latin America (see table 10).

Although the above data should be treated with some caution, they confirm what was said earlier about the introduction of container vessels on the Latin American routes during the 1970s. Account should also be taken of the competition in the carriage of these kinds of cargoes that would be offered by ships partially adapted to carry containers, lighter-carrying vessels and pallet ships.

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<sup>31/</sup> Because of the economies in labour and handling costs which they bring and their rapid loading and unloading in port. At the end of 1970, 152 container ships were operating on the principal routes, with a tonnage of 2.3 million dwt and capacity for more than 100,000 containers. In July 1971, 212 container vessels were under construction or on order, with a tonnage of 4.3 million dwt. (see table 4).

Table 10

ESTIMATES OF CONTAINERIZABLE CARGO IN THE FOREIGN TRADE OF LATIN AMERICA

| Country                             | Route                                 | Exports              |                                  | Imports              |                                  |
|-------------------------------------|---------------------------------------|----------------------|----------------------------------|----------------------|----------------------------------|
|                                     |                                       | (1 000<br>long tons) | Percentage<br>of total<br>volume | (1 000<br>long tons) | Percentage<br>of total<br>volume |
| United Kingdom                      | South America<br>(East Coast)         | 243                  | 85                               | 318                  | 16                               |
|                                     | South America<br>(West Coast)         | 99                   | 73                               | 238                  | 42                               |
|                                     | Central America and<br>Caribbean area | 245                  | 72                               | 201                  | 6                                |
| United States<br>(port of New York) | Latin America                         | 1 189                | 89                               | 1 484                | 79                               |

Source: UNCTAD, Unitization of cargo (United Nations publication, Sales N°: E.71.II.D.2), table 15.

/The importance

The importance of these innovations lies in the high capital intensity of the new types of ships,<sup>32/</sup> and the considerable investment required for the radical transformation of ports and port operations so as to make possible their use, particularly in the case of container ships. The use of lighter-carrying vessels, despite their high cost, would actually simplify port installation requirements, as port operations would be limited to handling the loading and unloading of shallow-draught lighters.<sup>33/</sup> The other implications of unitization techniques for the Latin American countries - some of which are mentioned in the Lima Declaration - may be summarized as follows:

- (i) The need to adapt the inland transport infrastructure and vehicles (rail and road) for the transport of large containers;
- (ii) The social repercussions of the considerable reduction in port labour requirements;
- (iii) The tendency for the major shipping routes to be centred on a small number of ports and possibly countries, especially as a result of the use of container ships. Secondary ports would be served by feeder and distribution services;
- (iv) The concentration of services and shipping companies, as a result of the high investment required by the new techniques, which could strengthen monopolistic tendencies in the sector;<sup>34/</sup>
- (v) The trend towards a very controversial partial or total standardization of freight rates.

These factors would lead to the weakening of the traditional liner conferences, made up of shipping lines using conventional cargo ships.

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<sup>32/</sup> See UNCTAD, Perspectives and problems in world shipping (TD/102).

<sup>33/</sup> The "mother ship" carrying the lighters would anchor in deep water and take on or drop off its barges some distance away from the wharves. The "mother ship" would of course sail without waiting for the lighters to be unloaded in the port.

<sup>34/</sup> On some important routes, container services are provided by one or two consortia grouping together the companies that own the ships.

An UNCTAD report <sup>35/</sup> states that "in the long term, roll-on/roll-off and barge-carrying operations appear to be potentially more attractive for developing countries than the use of containers carried in cellular container ships".<sup>36/</sup> In the Latin American region, the use of roll-on/roll-off vessels could be of particular value in the Caribbean area and for intra-regional trade on certain coastal routes. As regards lighter-carrying vessels, several Latin American countries have extensive river networks, which would enable them to sail lighters up to river ports in the very heart of the continent.

With regard to the introduction of the above-mentioned techniques by the Latin American countries, it should be borne in mind that one container ship or lighter-carrying vessel can carry a volume of cargo equivalent to that of perhaps three conventional cargo ships of similar tonnage. For this reason, it is expected that shipowners in the developed countries will lay off quite a large number of conventional cargo ships during the 1970s. This is why the UNCTAD report <sup>37/</sup> warns the developing countries to resist the temptation to buy conventional cargo ships second-hand, unless they can be bought and adapted to the new unitization techniques at low cost. For the Latin American countries, such adaptation would mean converting the vessels to composite ships capable of carrying containers and palletized cargo or pallet ships. There might also be a possibility of acquiring "first generation" container ships at favourable prices, given the rapid technological progress in this field. All this requires careful study of each individual case. As regards the operations of container ships, the port facilities for the handling of containers and the related inland transport services should not be owned or even indirectly controlled by foreign companies or consortia, since this could later make it difficult for local Latin American shipowners or shipping companies to secure participation on a truly equal footing in the utilization of such facilities.<sup>38/</sup>

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<sup>35/</sup> Perspectives and problems in world shipping (TD/102).

<sup>36/</sup> The same could be said of pallet ships, which are further characterized by lower cost and capital density.

<sup>37/</sup> See document TD/102. The developing countries already have a relatively large share of the world tonnage of conventional cargo ships. Freighters at present represent about 25 per cent of total world tonnage.

<sup>38/</sup> Thus, UNCTAD document TD/102 emphasized "the need for international approval of the rules and pattern of the contractual obligations governing the provision of the services".

/The joint

The joint United Nations/International Maritime Consultative Organization (IMCO) conference on international container transport, to be held in Geneva in November 1972, will examine, inter alia, a draft convention on the international combined transport of goods (the so-called TCM convention). This convention would provide for the establishment under international law of transport enterprises of a new type which would control to a certain extent practically all world services in the field of inter-modal door-to-door transport, and which might often be a single company or a consortium of container-ship owners. The Lima Declaration states that such a convention should not be adopted until the developing countries have acquired the necessary experience of inter-modal transport and are familiar with all its implications. The ECLA secretariat has made a special study of this subject,<sup>39/</sup> in addition to the study provided for in ECOSOC resolution 1568 (L).

#### 7. Multinational shipping enterprises

Efforts by groups of developing countries to form multinational enterprises which were referred to in the Lima Declaration, are of twofold importance: first, for the expansion of the merchant marines of those countries and the incorporation of technical advances, and secondly, to permit the participation of the least developed of the developing countries and of the land-locked countries. In a statement submitted by the developing countries to the Committee on Shipping,<sup>40/</sup> it is stated that "because of the high capital cost, it is likely that most developing countries would not be able on their own to establish a service by container ships or barge-carrying vessels. If containers or barges were introduced into the trade of a

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<sup>39/</sup> "El desarrollo latinoamericano y la conferencia Naciones Unidas/OCMI sobre el transporte internacional en contenedores" (E/CN.12/912/Rev.1).

<sup>40/</sup> See UNCTAD Report of the Committee on Shipping on the first part of its fifth session, Annex III (document TD/B/347 - TD/B/C.4/89). The problem of the establishment of multinational enterprises will be the subject of a special report by the UNCTAD secretariat for UNCTAD III (document TD/108).

developing country, that country might retain its stake in shipping by joining in a consortium and contributing one or two ships or through other co-operative arrangements. A number of developing countries within a geographical area might also create a multinational shipping enterprise". The formation of regional or sub-regional enterprises would be of particular interest in the context of the various integration processes under way in Latin America, for instance, in the Andean sub-region, Central America and the Caribbean. There is also the question of the possible participation of national or multinational enterprises of the region in consortia or co-operation agreements for the operation of services on specific routes in conjunction with enterprises from developed countries. This question would require careful study in the light of each individual case. Agreements of this kind would have to be in keeping with the shipping interests of the countries of the region and would have to contribute to the development of their foreign trade and the improvement of their balance of payments. The idea of multinational enterprises for specific groups of Latin American countries should be interpreted in the broadest possible way in view of the well known legal obstacles in the way of the establishment of multinational or international enterprises proper. Although it would be highly desirable to establish such enterprises in some cases, similar advantages could frequently be obtained by the establishment of consortia, pooling agreements or other arrangements for joint operation, which would enable the enterprises participating in the agreement or consortium to remain legally independent. ECLA would be well placed to carry out additional and special studies in this field - in co-operation, where necessary, with regional or sub-regional organizations - with a view to complementing and extending to the regional sphere the worldwide surveys carried out by the UNCTAD secretariat.

/C. FREIGHTS,

### C. FREIGHTS, COSTS AND RATIONALIZATION OF SHIPPING

The problem of sea freight rates has been the subject of extensive discussions and numerous resolutions in UNCTAD, and continues to be a source of constant concern to the Latin American countries and the other developing countries; this concern is reflected in various provisions of the International Development Strategy and the Lima Declaration.

#### 1. Increases in conference freight rates

The data on the changes which have taken place in conference freight rates during the last few months show how rapidly these rates are rising (see table 11). This trend is all the more serious for the developing countries when compared with the evolution of the price indexes of their own exports and of world exports of manufactures. Although the figures in table 11 may not exactly reflect the way freight rates have been rising in Latin America, there is no reason to assume that the situation is very different from that prevailing in other regions. The index of liner freights - the only index currently available - corresponds to goods loaded and unloaded by liners of all flags in ports in the Antwerp-Hamburg range, which includes Rotterdam, Bremen, etc. There may be divergences in the evolution of freight rates on the different world routes, but in general the trend is similar for all of them. In interpreting the figures in table 11, it should be borne in mind that most mineral products, except for non-ferrous metals, are not transported by liners. Food and agricultural products, however, including most cereals, are carried by liners, especially in the case of Latin America. At all events, there is a marked contrast between the rise in conference freight rates during the period 1960-1971 and the evolution of the other indexes selected.

/Table 11



Table 11

INDEXES OF LINER FREIGHT, PRICES OF EXPORTS FROM THE DEVELOPING COUNTRIES AND  
WORLD EXPORTS OF MANUFACTURED GOODS

(Base: 1963 = 100)

|                    | Liner<br>freight<br>rates a/ | Primary<br>commodities<br>b/ | Foodstuffs<br>b/ | Agricultural<br>non-food<br>b/ | Minerals<br>b/ | Non-ferrous<br>base metals<br>b/ | Manufactured<br>goods b/ |
|--------------------|------------------------------|------------------------------|------------------|--------------------------------|----------------|----------------------------------|--------------------------|
| 1960               | 92                           | 97                           | 84               | 114                            | 101            | 103                              | 98                       |
| 1963               | 100                          | 100                          | 100              | 100                            | 100            | 100                              | 100                      |
| 1964               | 104                          | 101                          | 101              | 101                            | 102            | 127                              | 101                      |
| 1965               | 107                          | 102                          | 101              | 102                            | 103            | 146                              | 103                      |
| 1966               | 111                          | 102                          | 102              | 100                            | 103            | 177                              | 106                      |
| 1967               | 115                          | 100                          | 101              | 94                             | 102            | 156                              | 107                      |
| 1968               | 115                          | 100                          | 102              | 94                             | 102            | 166                              | 107                      |
| 1969               | 117                          | 104                          | 108              | 101                            | 103            | 187                              | 110                      |
| 1970               | 122                          | 107                          | 116              | 98                             | 104            | 191                              | 117                      |
| 1971 - 1st quarter | 131                          | 106                          | 115              | 96                             | 109            | 166                              | 120                      |
| 1971 - 2nd quarter | 133                          | 109                          | 113              | 95                             | 116            | 175                              | 121                      |
| 1971 - 3rd quarter | 136 a/                       | 108                          | 113              | 94                             | 116            | 176                              | 124                      |

Source: United Nations, Monthly Bulletin of Statistics.

a/ Indexes of liner freights prepared by the Ministry of Transport of the Federal Republic of Germany.

b/ Price indexes; the Global Index for primary commodities comprises foodstuffs, agricultural non-food products and minerals.

c/ September: 137.

/As regards

As regards other types of shipping, the index for tramp charters rose steeply in 1970, but showed a marked drop in 1971. The indexes (annual averages) of trip and time charters in the Norwegian Shipping News increased by 33 per cent and 66 per cent, respectively, between 1963 and 1970, but in September 1971 they fell to levels 37 and 31 per cent lower than the average for 1970. For tankers, the increases in some indexes were even greater, but they also fell very sharply in 1971. It should be pointed out, however, that the above-mentioned freight rate indexes, both for dry cargo and oil, reflect trends in relatively marginal freight markets. Most oil is carried in tankers owned by the oil companies themselves or by affiliated companies, or in ships chartered for quite a long period. The same applies with regard to several of the most important types of bulk cargo. These indexes, therefore, reflect only to a small extent the transport conditions in question.<sup>41/</sup>

The representatives of maritime countries attribute the increases in freight rates to a variety of causes, including in particular world-wide inflationary trends and the rising costs of fuel, wages of ships' crews, ship maintenance and repair costs, insurance premiums, costs of loading and unloading in port, etc., but so far they have released no specific data on operating costs. The decisive factors in freight rate increases have probably been the rise in port expenses in the developed countries

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<sup>41/</sup> As regards the foreign trade routes of Latin America, some route indexes for tramp ships, drawn up by the Italian Ministry of the Merchant Marine, are available. These indexes accurately reflect the violent fluctuations in freight rates for this type of ship. Thus, on the Brazil-Northern route, the index fluctuated between 104 and 178 (1965 = 100) in 1970, but dropped to 47 in July 1971; on the River Plate-Europe route, the index fluctuated between 103 and 158 in 1970, dropping to 65 in July 1971, and on the River Plate-Far East route, the index fluctuated between 201 and 268 in 1970, falling to 69 in July 1971. In the ECLA document prepared for the CECLA meeting in Lima (E/CN.12/L.64), some examples are given of recent increases, generally of the order of 8-10 per cent, in conference freight rates on routes to and from Latin America. In some cases the increases were even greater because of the application of surcharges for such reasons as port conditions, the devaluation of the dollar, the currency exchange rate used in the calculation of freight rates and the increase in the price of fuel.

/themselves and

themselves and the increased cost of fuel. In the face of the reluctance of shipping lines to give information on costs, an UNCTAD report for presentation at UNCTAD III voices the suspicion that "the many sharp freight rate increases announced, for example, in 1970 owed more to the booming conditions in the charter market than to actual increases in costs at the time".<sup>42/</sup> It is also significant that the rapid technological progress in this sector does not appear to have led to reductions in either costs or freight rates. In Latin America, the increases in freight rates in 1970 and 1971 were announced without prior consultation or negotiation with shippers' organizations or the interested governments. There seems to be an obvious need, as stated in the Lima Declaration, to reverse the existing trend in the international freight market, which could constitute a serious obstacle to the achievement of the objectives of the International Development Strategy.

## 2. Lines of action on freight rates

The main lines of action that could be recommended to overcome the problems posed to the countries of the region by the frequent rises in maritime freight rates are as follows:

- (a) Publication of freight rates and obligation of conferences to give notice in good time of their proposals and decisions in respect of general increases in freight rates or increase in rates for products of vital concern to the Latin American countries. This would provide an opportunity for prior consultations and negotiation with shippers' councils and, where important decisions are at issue, with interested governments themselves;
- (b) Promotional freight rates;
- (c) Establishment and consolidation of machinery for consultation and negotiation between the shippers' councils and the conferences;
- (d) Adoption of measures to reduce shipping costs and rationalize services;

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<sup>42/</sup> Document TD/102, paragraphs 30 and 31.

- (e) Encouragement and acceleration of port improvements; and
- (f) Adoption by all interested parties of legal and administrative measures to implement the recommendations and resolutions of UNCTAD.

(a) Publication of freight rates; prior notification of proposals and decisions on increases in freight rates

In the Lima Declaration, the developing countries stress the need for conferences to provide all relevant information, including data on the costs and revenues of the ships of conference members operating on the trade routes covered by each conference. Any evaluation, negotiation or consultation regarding the possible justification of increases in freight rates would be greatly complicated if the conferences did not provide UNCTAD, the shippers' councils and governments with adequate data on the level and structure of their costs. The compilation and use of such data in consultations and negotiations, and their publication, should be carried out in a manner and form which are not detrimental to the interests and competitive position of the shipping enterprises concerned.

(b) Establishment and consolidation of machinery for consultation and negotiation

The International Development Strategy and the Lima Declaration place special emphasis on the importance of the establishment and consolidation of an effective system of consultation and negotiation between the shippers' councils and the conferences. Most Latin American countries have established shippers' councils or equivalent bodies, but such councils have generally had a precarious existence, receiving only limited support from governments, and so they have achieved little with regard to the establishment of machinery for actual consultation and negotiation with the conferences; determined and continuous efforts will therefore continue to be required if their existence is to be consolidated.<sup>43/</sup> Even in Western Europe,

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<sup>43/</sup> A basic UNCTAD document, Consultation on shipping (TD/B/C.4/20/Rev.1), includes references to ECLA's experience in this field.

where initiatives along these lines date back fifteen years or more, the machinery for consultation has not been completely successful and there is growing pressure to improve the efficiency of consultations.<sup>44/</sup>

If shippers' councils are to operate effectively, their internal organization and material and technical resources must be adequate for the task of carrying out consultations and negotiations with the conferences.

An ECLA Trade Committee resolution several years ago called on Latin American governments to establish study units to examine the problems of shipping and freight rates at government level, with the participation of shipping lines and shippers' councils. With the same end in view, the Lima Declaration states that the liner conferences should "ensure that governments of the developing countries concerned are fully involved in consultations and decisions on all matters affecting freight rates and conditions of the carriage of cargo in their respective trades". The participation of governments in the machinery for consultation and negotiation has been the main point of dissension between the developed and the developing countries in this matter.<sup>45/</sup>

As stated in the UNCTAD report already referred to,<sup>46/</sup> "It is not essential that the government must always be a full member of the consultation machinery. For example, a government representative may attend the discussion and there may be a requirement that the results of the discussion be referred to the appropriate governmental department before decisions can be implemented. The presence of the government representative at the discussions helps to ensure acceptance of the proposals made". Although

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<sup>44/</sup> See UNCTAD, Perspectives and problems in world shipping (TD/102), paragraphs 46 et seq.

<sup>45</sup> A draft resolution presented by the developing countries at the fifth session of the Committee on Shipping, but later withdrawn, stressed that in view of the inherent weakness of the shippers' organizations in developing countries, the governments of those countries should participate in such consultations.

<sup>46/</sup> Document TD/102, paragraphs 48 et seq.

the methods of organizing the machinery for consultation and negotiation are, in the final analysis, in the hands of the interested countries, the developing countries, in the Lima Declaration, ask the UNCTAD secretariat to "study the establishment of a model "Note of Understanding" between liner conferences and national, sub-regional and regional shippers' councils of developing countries, with general guidelines and possible variations".<sup>47/</sup>

From ECLA's point of view, the most important provision of the Lima Declaration is that which emphasizes the important role that the regional economic commissions can play in promoting the development of national, sub-regional and regional shippers' councils. Moreover, bearing in mind that many shipping problems on a specific route or routes are to a considerable extent common to several countries, and therefore require co-ordinated action, the Declaration suggests that each regional economic commission should convene a regional conference of shippers' organizations which could consider what form of regional or sub-regional machinery would be appropriate.

(c) Promotional freight rates

The fixing of promotional freight rates has been a source of constant concern to the Latin American countries. In recent years, the shipping enterprises of the region have endeavoured to obtain promotional freight rates for their exports from the conferences, particularly in order to promote new export items. Little seems to have been actually achieved up to now, however, despite the efforts made by the developing countries in the Committee on Shipping.<sup>48/</sup> The Lima Declaration stresses the need for liner conferences to institute promotional freight rates for exports from developing countries of non-traditional items and shipments to non-traditional markets. While this problem is of particular concern to certain

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<sup>47/</sup> A "Note of Understanding" of this type was signed between the European liner conferences and European shippers in 1964 as a result of a prior resolution adopted by the Ministers responsible for shipping in the governments of the interested countries of Western Europe.

<sup>48/</sup> UNCTAD document TD/104, The regulation of liner conferences, points out that the great majority of conferences have no specific policy or procedures for the application of promotional freight rates.

countries from the point of view of the promotion and diversification of their exports of manufactures,<sup>49/</sup> it is equally vital to the least developed among the developing countries, whose new potential exports often include traditional commodities. It would be impossible for the world surveys carried out by UNCTAD to cover in detail all the problems of the various regions. These surveys could be complemented, in the case of the Latin American countries, by special ECLA studies taking due account of the situation of the least developed of the developing countries and the particular problems of the land-locked countries. To this end, it would be most important to have the collaboration of shippers' councils, of the national, sub-regional or regional consultation machinery, and of the study units for problems of maritime transport and freight rates, mentioned above.<sup>50/</sup>

(d) Reduction of shipping costs and rationalization of services

Measures to reduce the shipping costs of certain goods through the grouping of individual shipments could well be a means of bringing about substantial reductions in freight rates. The question is raised in one of the reports prepared by the UNCTAD secretariat for UNCTAD III.<sup>51/</sup> The fact that export and import activities are often organized on a small-scale basis in the developing countries, and the multiplicity of small-scale producers, exporters or importers in some sectors, leads to excessive fragmentation of shipments, and the handling of a large number of small shipments is obviously a factor that pushes up the cost of shipping.

<sup>49/</sup> At its fifth session, the Committee on Shipping requested the UNCTAD secretariat to complete its study as soon as possible on promotional freight rates for a certain number of non-traditional exports of developing countries.

<sup>50/</sup> See also UNCTAD, Promotional freight rates on non-traditional exports of developing countries (TD/105 and Supp.1), and ECLA Maritime freight rates in the foreign trade of Latin America (E/CN.12/812/Rev.1).

<sup>51/</sup> Document TD/102, paragraphs 35 et seq.; the report refers in particular to other studies on the transport by sea of tropical timber, rubber and jute.

This is a matter calling for special studies of the traffic structure, especially in the case of the export trade of the countries of the region and in respect of certain products, whose transport costs could be substantially reduced by the co-ordination and concentration of consignments so as to make possible the assembly of full loads and the chartering of ships especially for them, or at least the securing of special conference rates lower than normal. Such studies could be undertaken by shippers' councils with the co-operation of shipowners and the public authorities responsible for foreign trade and maritime transport, with possible technical advisory assistance from UNCTAD, ECLA or UNDP experts. It is difficult to make an a priori assessment of Latin America's prospects in this connexion, since UNCTAD studies in this field deal more specifically with other developing regions. At all events, however, it is obvious that "although individual solutions are needed for individual cases, the principles that the larger the unit of shipment the more economically it can be shipped and that trading structures need to be adapted so that shipments can be made in larger units are of general validity".<sup>52/</sup>

Another aspect which is perhaps more vital to the region is that the continuous increases in conference freight rates may well be largely a consequence of the growing excess of cargo capacity or the under-utilization of capacity on several sea routes, since the conferences, on account of their monopoly position, are able to meet the increased costs arising from excess or under-utilized capacity simply by raising freight rates. In recent years the ECLA secretariat has considered preparing studies on this problem, but unfortunately there is a lack of precise data on the coefficient of utilization of ships' cargo space in the Latin American countries' foreign trade both within and outside the region. An UNCTAD secretariat report <sup>53/</sup> points out that "the existing pattern of most liner services is irrational. It is quite common to find in a port four or five liners, all loading for the same destination, to depart within a day or so of each other, and each of them to

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<sup>52/</sup> See document TD/102, paragraph 45.

<sup>53/</sup> See document TD/102, paragraphs 68 and 69.



call at a number of ports en route... Far too many ships are therefore used to handle the trade, and the costs of these have to be met from freight rates". Moreover, the problem has been aggravated on some routes by the introduction of services by container ships and barge-carrying vessels. It should be emphasized, however, that the problem is a complex one, since it is necessary to reconcile adequate frequency of services - to meet the requirements of shippers and of trade in general - with rationalization of services to permit improved utilization of cargo capacity, which in some cases could involve fewer sailings.<sup>54/</sup> The problem of the relationship between changes in freight rates and changes in costs of maritime transport is currently being studied by the UNCTAD secretariat in conformity with resolutions adopted by the Committee on Shipping at its fourth and fifth sessions; in the second of these resolutions the UNCTAD secretariat was requested to give top priority to this study.<sup>55/</sup>

(e) Port improvements

Although port conditions have improved in some countries, there have been no significant changes in the region as a whole and operations in many ports are still slow and expensive. Lower port costs and increased efficiency continue to be important objectives that must be achieved if any reduction in freight rates is to be secured. In liner shipping, loading, discharging and other costs connected with the ships' stay in port account for 50 to 60 per cent of the freight rates. Admittedly this is a world problem, but in developed countries it is due to high labour costs for loading and discharging and restrictive labour practices rather than to actual inefficiency in port operations. With the introduction of the technological innovations referred to earlier in this chapter, shipowners hope to avoid high port costs and the slow turn-round of ships in port.

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<sup>54/</sup> The problem is complicated by the use on many routes of large ships whose technical and economic advantages may be lost owing to low coefficients of utilization of cargo capacity.

<sup>55/</sup> See UNCTAD, Report of the Committee on Shipping on the first part of its fifth session (TD/B/347 - TD/B/C.4/89), Annex I, resolution 16 (V).

The International Development Strategy and the Declaration of Lima reaffirm the imperative need for a concerted national and international effort to promote the development and improvement of ports. In the Declaration of Lima it is further stated that "there should be a considerable enlargement of financial and technical assistance to developing countries both for increasing the capacity and degree of sophistication of port facilities and for improving the organization, management and operation of their ports". This question must not, however, be seen only in terms of investment, since, as affirmed in an UNCTAD report, "in many ports the major problems are not soluble by investment since they arise from difficulties in the operation and organization of existing facilities".<sup>56/</sup>

Operations in many Latin American ports continue to be adversely affected by such factors as: (i) the instability of management bodies; (ii) the lack of real autonomy and effective control in port operations and management; (iii) interference of customs procedures and formalities in port operations proper; and (iv) labour conditions which hamper efficient operation.

The Declaration of Lima states that the regional economic commissions and regional financial institutions should be enabled through adequate funding to assist in port development. Such assistance should be directed, inter alia, towards convening regional and sub-regional seminars and conferences on the problems of port development and organization and promoting the establishment of zonal and sub-zonal associations of ports and harbours in order to combine their efforts to facilitate the improvement of ports. In Latin America there is already an organization of port authorities of Pacific coast countries and a similar body for Central American ports.

To complete these comments on port problems, two other important points may be mentioned briefly. The first is the practice of averaging freight rates, the effect of which is that the same tariff is charged for a large number of ports within a certain "range" of a trade route. This has been a fairly frequent practice in Latin America in recent years, at least for ports on the Pacific coast. There are certain administrative advantages for

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<sup>56/</sup> Implementation of International Development Strategy in shipping and ports (TD/103), para. 31.

/conferences in

conferences in charging a single freight rate for several ports which are fairly close together on a route, and this may even benefit ports and countries located in zones at the ends of major trade routes. Moreover, within certain limits, the mere distance factor has little effect on transport costs. This question has been discussed at length in an UNCTAD secretariat report,<sup>57/</sup> in which it is held that the practice should be stopped as soon as possible since "it destroys any incentive for an inefficient port to improve itself" and, what is even more serious, it may mean that ports which have striven to modernize and improve their facilities will not receive any benefit in the form of reduced rates.

The second point, which is raised in the Declaration of Lima and in two UNCTAD reports, is the feasibility of introducing free-in-and-out (FIO) rates.<sup>58/</sup> The Declaration of Lima recommends that this possibility and the implications thereof should be investigated. The FIO rates would include only the actual ship movement costs, while the loading and discharging costs would be paid separately by the shippers, importers or exporters, or their agents. FIO rates are already in common use for bulk carriers.<sup>59/</sup> In some conference and shipowning circles there has long been discussion about the possibility of establishing FIO freight rates for liners because of the convenience of separating the ships' movement costs from the terminal costs in port over which the shipowners have no direct influence or control. According to these same circles, the big freight rate increases about which shippers complain are often due to port conditions.<sup>60/</sup>

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<sup>57/</sup> Perspectives and problems in world shipping (TD/102), paras. 59-66.

<sup>58/</sup> See Declaration of Lima, paragraph E.10, and UNCTAD secretariat reports TD/102, paragraph 65, and TD/103, paragraphs 33 to 35.

<sup>59/</sup> Free-in-and-out-and-stowed (FIOS) rates are also frequently quoted for bulk carriers.

<sup>60/</sup> According to a shipping periodical referred to in document TD/102, paragraph 65, the Associated Latin American Freight Conference has proposed that as from 4 October 1971 cargo handling charges at United States Atlantic and Gulf ports should be transferred from the ocean carrier to the shipper and consignee.

There are two ways in which this system of establishing freight rates could be applied. If the conference or shipowners applied it in such a way that both the loading and discharging costs were the shippers' responsibility, either directly or through their agents or representatives, the importers or exporters would have a number of disadvantages to contend with, for in order to calculate the purchase or sales price of commodities the shippers would have to know the loading and discharging costs and procedures for different products in a large number of ports. This difficulty does not arise in the case of bulk carriers, which generally use special loading and discharging facilities or even special ports.

A second and more advantageous method would be for the shipowners or conferences to continue to establish the total freight rates but to distinguish between the proportion covering the actual movement of the vessel and that covering terminal loading and discharging costs. The proportion covering terminal costs could in its turn be divided into costs at port of shipment and costs at port of destination. Although this method might complicate the presentation of tariffs, it would do much to facilitate freight rate negotiations, since it would be possible to determine whether increases in the rates were due to the ship's operating costs or to an increase in the costs for certain ports. It would also be an incentive for countries with expensive ports to improve their operating conditions, since they would benefit from the reduction in that part of the rate. The FIO rate system would, however, present some difficulties regarding the negotiation with the conferences of the various components of the total rate, and it would be necessary to reach agreement concerning navigation costs and port costs, which cover not only loading and discharging but also the ship's costs during its stay in port.

(f) Legal and other measures to facilitate the implementation of UNCTAD decisions

The Declaration of Lima refers to the need for UNCTAD resolutions and recommendations to be effectively brought to the notice of all interests concerned, and for governments to ensure by legislative and administrative means that they are duly implemented. Closer contact between ECLA and shipowners, conferences and their representatives, and shippers' bodies would enable these circles to be kept better informed about UNCTAD resolutions.

/The adoption

The adoption by the Latin American governments of legal and administrative measures for implementing UNCTAD resolutions could stimulate the efficient functioning of the system of consultation and negotiation between liner conferences and shippers and help to solve some problems connected with conference practices, including:

- (i) Registration of conference agreements, including pooling arrangements;
- (ii) Dissemination and registration of conference tariffs;
- (iii) The obligation to give timely notice of proposals and decisions to increase freight rates;
- (iv) The admission of Latin American shipping lines to conferences as members on an equal footing and with full rights, including full traffic rights on routes to intermediate ports connected with the foreign trade of the Latin American country concerned;
- (v) The conferences' obligation to maintain effective representation in each country, which is important for the efficient functioning of the consultation and negotiation system.

The Declaration of Lima also provides for the conclusion of shipping agreements to ensure "the achievement by the merchant marines of developing countries of an increasing, substantial and equitable participation in the carriage of maritime cargoes and in earnings therefrom". Both in this connexion and in the adoption of legal and administrative measures, the Latin American countries should take co-ordinated action allowing for the particular conditions in each country.

/D. THE

D. THE REGULATION OF LINER CONFERENCES: ESTABLISHMENT  
OF A CODE OF CONDUCT

For years the Latin American countries and other developing nations have been advocating the drastic reform of the conference system, and particularly the elimination of all unfair and discriminatory practices. These practices have been the subject of several provisions of the International Development Strategy and of many UNCTAD recommendations, which have so far only been implemented to a very limited extent as regards Latin American sea transport.

This question assumed renewed importance with the adoption by the Ministers of Transport of 11 European countries <sup>61/</sup> and Japan (the Maritime Transport Consultative Group), <sup>62/</sup> at a meeting held in Tokyo in February 1971, of an important decision urging the shipowners of the respective countries to draw up a code of conference practice for consideration by the governments before 31 December 1971. According to this decision, liner conferences "should aim initially at acceptance of the code by conferences serving the trade of their countries while bearing in mind the ultimate objective that such a code should receive world-wide endorsement". <sup>63/</sup> The developing countries welcomed the decision taken at the Tokyo meeting but did not agree that shipowners of only a limited number of countries should adopt a world code, and they secured the inclusion of this item in the provisional agenda of the third session of UNCTAD. The UNCTAD Working Group on International Shipping Legislation also decided to review the question of conference practices at its January 1972 session, with a view to formulating an internationally acceptable code of conduct. <sup>64/</sup>

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<sup>61/</sup> Belgium, Denmark, the Federal Republic of Germany, Finland, Greece, Italy, the Netherlands, Norway, Sweden and the United Kingdom.

<sup>62/</sup> The Government of Spain later became a member of the Group.

<sup>63/</sup> See Decisions taken by the meeting of European and Japanese Ministers of Transport, Tokyo, February 1971 (TD/B/C.4/L.69), 9 February 1971.

<sup>64/</sup> See also the ECLA report on maritime transport (E/CN.12/L.64) presented at the meeting of the Special Committee on Latin American Co-ordination (CECLA) held at Lima in October 1971, and the report entitled The regulation of liner conferences (Code of conduct for liner conference system) (TD/104), 13 October 1971, presented by the UNCTAD secretariat at the third session of the Working Group on International Shipping Legislation.

The Declaration of Lima, which in essence takes up a resolution adopted by CECLA in this matter (Lima, October 1971), states that such a code should: (i) provide for the restructuring of conference agreements in such a manner that they fully reflect the share, the role and the interest of the shipping lines of developing countries; and (ii) be adopted by the governments of all countries in a manner that is binding on them and can be suitably enforced.

The UNCTAD secretariat has prepared a report <sup>65/</sup> suggesting solutions to the many problems of the Latin American and other developing countries in connexion with conference practices, which provides an excellent basis for examining the question of preparing a code of conduct for liner conferences. According to this report, the liner conference system places "two basic restraints upon the free operation of competitive forces in liner shipping": firstly, the obligations and restraints imposed on member lines and, secondly, those imposed on shippers through "tying" or "loyalty" arrangements.<sup>66/</sup> The regulation of liner conferences has so far been accomplished by two methods:

(i) Voluntary regulation, which is essentially confidential. The regulations relate in particular to the rights and obligations of member lines, the conditions for adopting decisions on the relationship with shippers, the fixing of freight rates and other transport conditions, and other inter-conference matters such as external competition and its prevention or elimination, etc.

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<sup>65/</sup> TD/104.

<sup>66/</sup> Mainly deferred rebates, dual rate systems or contract tariffs.

(ii) Public regulation: the conferences have essentially the same institutional characteristics as self-regulated conferences, but they are subject in varying degree to government legislation regarding the obligations and restraints between member lines and decisions concerning the relationship with shippers, rate fixing, etc. Public regulation may be comprehensive - i.e., when the legal provisions cover all the important rules and practices of the organization and functioning of the conferences - or partial, when the provisions relate to only some of those rules or practices. The sole existing example of comprehensive public control is that of the United States. In some other countries, such as Argentina, Australia, Brazil, Canada and Japan, certain conference practices are subject to public regulation.

Because of their importance from the Latin American standpoint, the conference practices subject to public regulation in Argentina and Brazil are set out in table 12. Public regulation of a fairly comprehensive nature is applied only in Brazil, although Argentina has adopted legal provisions for regulating certain important conference practices. In some countries, mainly Chile and Peru, the agreements of some conferences on trade sharing and pooling have been subject to approval by the government authorities, with the aim of securing increased participation to a specified extent by national shipping lines in certain important trade routes.<sup>67/</sup>

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<sup>67/</sup> For information on Brazil's maritime policy, see ECLA, Economic Survey of Latin America, 1969 (United Nations publication, Sales N° S.71.II.G.1).



Table 12

CONFERENCE PRACTICES COVERED BY REGULATION IN ARGENTINA AND BRAZIL

|   | Argentina | Brazil |
|---|-----------|--------|
| <b>1. <u>Relations between member lines a/</u></b>                                |           |        |
| (a) Membership  | x         | x      |
| (b) Share of trade  | x         | x      |
| (c) Pooling   |           | x      |
| (d) Sanctions   |           |        |
| (e) Self-policing   |           |        |
| (f) Publication of conference agreements  | x         | x      |
| (g) Contents of conference agreements   |           | x      |
| <b>2. <u>Relations with shippers a/</u></b>                                       |           |        |
| (a) Loyalty arrangements  |           | x      |
| (b) Dispensation  |           | x      |
| (c) Publication of tariffs and related regulations                                | x         | x      |
| (d) Consultation machinery  |           |        |
| (e) Representation  |           |        |
| <b>3. <u>Freight rates a/</u></b>   |           |        |
| (a) General freight rate increases  |           | x      |
| (b) Specific freight rates  |           | x      |
| (c) Promotional freight rates   |           |        |
| (d) Surcharges  |           | x      |
| (e) Currencies - devaluation, revaluation, rates of exchange, floating currencies |           |        |
| <b>4. <u>Other matters a/</u></b>   |           |        |
| (a) Outside competition   |           |        |
| (b) Averaging of freight rates  |           |        |
| (c) Quality of service  |           |        |
| (d) Adequacy of service   |           |        |
| <b>5. <u>Implementation a/</u></b>  |           |        |
| Settlement of disputes  |           |        |

a/ For an explanation or definition of the various rules and practices listed in this table, see document TD/104, table 1.

1. Possible methods for the international regulation of conferences

Any system of regulation should take account of the fact that conferences operate on an international scale and that the majority include member lines from several countries, while the routes serve countries in different parts of the world.<sup>68/</sup> The UNCTAD report <sup>69/</sup> discusses five possible methods:

(a) The regulation of conferences by statute, as for example in the United States. Although in the report this is not considered a satisfactory solution because of the risk of disputes arising from a proliferation of regulatory statutes, it may be argued that such disputes could to some extent be avoided by co-ordinating the statutes of the countries concerned, at least at the regional or sub-regional level;

(b) The adoption of an international agreement on a code of practice, without provision for any regulatory administrative organization or machinery. The countries could either:

- (i) Determine the criteria and areas for regulation by their governments; or
- (ii) Determine those criteria and areas, but leave it to the shipowners to draft principles which they would undertake to implement.<sup>70/</sup>

(c) The establishment of an international agency to regulate and police conferences;

(d) The international regulation of conferences through the adoption of an international agreement to be implemented by the contracting governments;

(e) The regulation of conferences through the adoption of an international agreement and the establishment of national and international arbitration bodies.<sup>71/</sup>

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<sup>68/</sup> Ibid.

<sup>69/</sup> Document TD/104, chapter III.

<sup>70/</sup> This is roughly what was agreed at Tokyo about self-regulation.

<sup>71/</sup> Important complaints about conference practices would be submitted to international arbitration and complaints of secondary importance to national arbitration.

2. Preparation and adoption of a code of conduct  
for liner conferences

The UNCTAD report considers that the method described in paragraph (e) would make for satisfactory and feasible international regulation and suggests that the preparation of a preliminary draft of an agreement on rules of conduct could be entrusted to the Working Group on International Shipping Legislation and the third session of UNCTAD, but that the final preparation and adoption of the agreement should be left to a conference of plenipotentiaries convened by the Secretary-General of the United Nations for the purpose.<sup>72/</sup> The code should cover all aspects of conference agreements and practices which may give rise to controversy or which, in the opinion of shippers or governments, are arbitrary or restrictive.<sup>73/</sup>

The arrangements for the preparation, ratification and implementation of an international agreement of this kind should include measures to speed up formalities which proved extremely slow and complex on other occasions. It is likewise important to define the scope and nature of the international organization whose secretariat would be responsible for administering the provisions of the agreement and providing the necessary services for the international arbitration machinery. This machinery would be a key factor of the regulation system. First and foremost, whatever the arrangements decided upon, UNCTAD should at its third session adopt a firm and solemn resolution or declaration on conference practices, drafted

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<sup>72/</sup> See paragraphs 91 and 126 of document TD/104. The report mentions, in this connexion, the United Nations Conference on Transit Trade of Land-locked Countries which met in June/July 1965 and adopted the Convention on Transit Trade of Land-locked States on 8 July 1965.

<sup>73/</sup> Chapter IV of document TD/104 examines the various conference practices in detail and suggests some provisions which might usefully be included in a code of conduct for liner conferences.

in the form of a code of conduct for liner conferences.<sup>74/</sup> The experience gained in the application or perfecting of such codes by governments and by the UNCTAD Committee on Shipping would be most useful in the subsequent preparation and approval of a world-wide agreement on rules of conduct for liner conferences. This procedure would not exclude the application in Latin America in the very near future of the rules of conduct which may be adopted at the third session of UNCTAD, through such legal or administrative measures as the governments of the region may decide to adopt.

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<sup>74/</sup> According to the latest information to hand, the Working Group on International Shipping Legislation reviewed three draft codes of conduct at its January 1972 session: (i) a code of conduct for the liner conference system (TD/128), prepared by the Committee of European National Shipowners' Associations (CENSA) and presented by 11 European countries and Japan; (ii) a preliminary draft code of conduct for liner conferences (TD/B/C.4°ISL/L.26), presented by 12 African and Asian countries; and (iii) a draft code of conduct (TD/B/C.4/ISL/L.28), presented by the Latin American countries which are members of the Working Group: Argentina, Brazil, Chile, Colombia and Mexico. The Working Group decided to submit the three drafts, together with the UNCTAD secretariat report (TD/104), for consideration at the third session of UNCTAD. The two drafts prepared by the developing countries are almost identical, and the representatives of these countries have stated that they hope to consolidate them into a single draft before UNCTAD III opens.

## Chapter X

### INSURANCE AND TOURISM

Both these invisible trade items are of special importance to the countries of Latin America: insurance and reinsurance because of the large outflows under this heading in the balance of payments, and tourism because of the failure of the countries of the region, with very few exceptions, to take proper advantage of the potential that tourism offers as regards foreign exchange earnings and the mobilization of natural resources.

#### 1. Insurance

Insurance and reinsurance constitute an important element in both invisible earnings and expenditures and economic development in general: their implications for the developing countries were first set forth at the world level in UNCTAD, where they were the subject of resolutions at the first two Conferences. They are also the subject of a section in the International Development Strategy which stresses the importance for developing countries of encouraging the growth of national and regional insurance and reinsurance markets and the significant role of these items in their balance of payments.

Owing largely to the special nature of insurance and the varied field covered by it, the UNCTAD secretariat, in co-operation with expert working groups, has concentrated its activities in recent years on the preparation of several basic studies which were examined at the December 1971 session of the Committee on Invisibles and Financing related to Trade. The main problems of insurance as they affect the developing countries are also the subject of a report summarizing the results and conclusions of the studies carried out to date <sup>1/</sup>, which will be presented by the UNCTAD secretariat at UNCTAD III.

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1/ UNCTAD, Insurance and the developing countries (TD/141).

Looking ahead to the discussions to be held at the third session of UNCTAD, mention should be made of the relevant provisions of the Lima Declaration, which reflect the aspirations in this matter voiced by the Latin American countries in a CECLA resolution (Lima, October 1971). Another document considered to be of great importance for the further consideration of the problems is the draft resolution on insurance and reinsurance sponsored by the developing countries - including seven Latin American countries - at the fifth session of the Committee on Invisibles and Financing related to Trade<sup>2/</sup>. It proved impossible to reach agreement on this draft and the Committee decided to refer it to the third session of UNCTAD. The developing countries insisted, as they had done on previous occasions, that measures should be taken to enable their national markets to absorb the insurance transactions generated by their own economic activities, including foreign trade, that the technical reserves built up in connexion with such transactions should be invested in the developing countries themselves, and that the developed countries should recognize the need to reduce the cost of insurance and reinsurance, because of their high incidence on the balance of payments of the developing countries. The developed countries, however, stressed the international nature of insurance, and of reinsurance in particular, and maintained - though without producing any supporting evidence - that the measures advocated by the developing countries could, contrary to the claims made, actually increase the cost of insurance and reinsurance.

The above-mentioned draft resolution incorporates and broadens the relevant provisions of the Lima Declaration and takes account of the reports presented by the UNCTAD secretariat at the fifth session of the Committee on: (i) insurance legislation and supervision in developing countries (document TD/B/C.3/84 and Add. 1 and 2); (ii) the report of the Group of Experts on the same subject (document TD/B/C.3/90); (iii) investment of the technical reserves of insurance concerns in the country where the premium income arises (document TD/B/C.3/87), and (iv) establishment of a unified international system of insurance statistics (document TD/B/C.3/85). As the latter proposal concerns a field about which little is known, there was consensus only on the need to establish such a system.

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<sup>2/</sup> UNCTAD, document TD/B/C.3(V)SC/L.2, 7 December 1971.

Particular importance should be attached to the provisions of the draft resolution concerning regional and sub-regional co-operation and technical assistance. The draft recommends the UNCTAD secretariat to carry out a study on the establishment of reinsurance funds at the regional and sub-regional levels, with a view to ensuring the absorption, within the regions or sub-regions concerned, of a growing proportion of reinsurance transactions. It also calls for the organization by the UNCTAD secretariat, within the framework of UNDP and with the co-operation of the regional economic commissions, of meetings of insurance supervisors to exchange information on insurance legislation and supervision.

## 2. Tourism

Over the last ten or fifteen years there has been a considerable increase in international tourism, which today constitutes one of the most important items in world trade in general. According to estimates made by the International Union of Official Travel Organizations (IUOTO), total world receipts (credits) from international tourism in balance of payments accounts, excluding international travel fares, amounted to 17,400 million dollars in 1970<sup>3/</sup>. However, most of these earnings were accounted for by the European countries (10,700 million) and the United States and Canada (about 3,000 million). With a few important exceptions - of which Mexico is the most notable - the Latin American countries, and particularly the countries of South America, have benefited very little from the enormous expansion of this item of invisible trade. The most recent data on the role of "travel and tourism" in the balance of payments of the Latin American countries are presented in table 1; no further comments are called for in the light of the general remarks made above.

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<sup>3/</sup> In 1960, the corresponding total was 6,800 million dollars.

Table 1

LATIN AMERICA: TRAVEL AND TOURISM IN THE BALANCE OF PAYMENTS, 1970

(Millions of dollars)

|                              | Credit         | Debit          | Balance       |
|------------------------------|----------------|----------------|---------------|
| Argentina                    | 171.0          | 199.0          | -28.0         |
| Bolivia                      | 2.5            | 3.9            | -1.4          |
| Brazil                       | 30.0           | 120.0          | -90.0         |
| Chile a/                     | 53.0           | 78.0           | -25.0         |
| Colombia                     | 55.0           | 75.0           | -20.0         |
| Ecuador a/                   | 9.0            | 9.2            | -0.2          |
| Guyana                       | 2.7            | 3.2            | -0.5          |
| Paraguay                     | 14.2           | 5.1            | 9.1           |
| Peru                         | 46.0           | 58.0           | -12.0         |
| Uruguay a/                   | 40.0           | 25.0           | 15.0          |
| Venezuela                    | 50.0           | 140.0          | -90.0         |
| <u>Total South America</u>   | <u>473.4</u>   | <u>716.4</u>   | <u>-243.0</u> |
| Costa Rica                   | 21.7           | 13.8           | 7.9           |
| Dominican Republic           | 17.0           | 37.0           | -20.0         |
| El Salvador                  | 8.5            | 20.4           | -11.9         |
| Guatemala                    | 12.1           | 14.5           | -2.4          |
| Haiti                        | 6.6            | 4.3            | 2.3           |
| Honduras                     | 4.1            | 11.9           | -7.8          |
| Mexico                       | 1 454.0        | 745.0          | 709.0         |
| Nicaragua                    | 13.2           | 15.1           | -1.9          |
| Panama                       | 80.3           | 23.8           | 56.5          |
| <u>Total Central America</u> | <u>1 617.5</u> | <u>885.8</u>   | <u>731.7</u>  |
| Jamaica                      | 95.5           | 15.5           | 80.0          |
| Trinidad and Tobago          | 21.6           | 22.9           | -1.3          |
| <u>Total</u>                 | <u>117.1</u>   | <u>38.4</u>    | <u>78.7</u>   |
| <u>Total Latin America</u>   | <u>2 208.0</u> | <u>1 640.6</u> | <u>-567.4</u> |

Source: IMF, Balance of Payments Yearbook.

a/ ECLA estimate.



The International Development Strategy for the Second Development Decade touches on the problem of tourism in the following terms: "Developing countries will expand their tourist industry through the building of tourist infrastructure, adoption of promotional measures and relaxation of travel restrictions. Developed countries will assist in this endeavour. They will try to avoid exchange restrictions on the travel of their residents to developing countries and, where restrictions do exist, to remove them as soon as practicable and to facilitate such travel in other ways".

Looking ahead to the third session of UNCTAD, special attention should be paid to the provisions of the Lima Declaration concerned with tourism,<sup>4/</sup> and especially to the draft resolution sponsored by twenty-three developing countries - including seven Latin American countries<sup>5/</sup> - at the fifth session of the Committee on Invisibles and Financing related to Trade. These documents clearly define the aspirations, objectives and main lines of a tourism policy for the developing countries. It should be pointed out, however, that the Committee did not take any decision on this draft resolution, which was transmitted to UNCTAD III.

As regards the future action of the Latin American countries and of ECLA itself in this field,<sup>6/</sup> the provisions of the draft resolution with respect to the following are worthy of particular note:

(i) The co-operation of the developing countries in the formulation of long-term plans for the promotion of tourism at the regional and sub-regional levels, and the need to integrate tourism in national economic planning;

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<sup>4/</sup> See paragraphs E.41-45 of the Lima Declaration.

<sup>5/</sup> Argentina, Brazil, Chile, Guatemala, Mexico, Peru and Venezuela. The draft resolution is based largely on the provisions of the Lima Declaration.

<sup>6/</sup> In this connexion, mention should be made of the activities of the OAS Inter-American Tourism Congresses and of the programme of activities recently approved by the Inter-American Economic and Social Council (IA-ECOSOC) for the celebration of American Tourism Year in 1972.

(ii) The need to improve statistics on international tourism and the tourist industry in general, as an essential base for the preparation of plans and the formulation of a tourism policy;

(iii) The need to revise the current structure of airline fares, with a view to eliminating discrepancies that hamper the flow of tourists to the developing countries.

With regard to the first of these points, there is no doubt that in Latin America, as in other developing regions, very few systematic studies have been carried out on the economic aspects of tourism. Of particular interest in this connexion is the report prepared by the UNCTAD secretariat on "Elements of tourism policy in developing countries"<sup>7/</sup>, which analyses the significance of tourism in the national economies, as a source of foreign exchange and as a means of generating income and employment; policies and institutions for tourism; resources for tourism and their utilization; problems of accomodation; and infrastructure for tourism.

The importance to the Latin American countries of specific national, regional or sub-regional studies of this kind is obvious. Accordingly, the Latin American countries should, at the earliest possible opportunity, take the necessary measures to improve their statistics on tourism, following the guidelines of the study prepared by the UNCTAD secretariat <sup>8/</sup>.

There was general consensus in the Committee on Invisibles and Financing related to Trade that this study is very useful. The draft resolution presented by the developing countries commends the "Guidelines" to the

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<sup>7/</sup> UNCTAD, Invisibles: Tourism, Elements of Tourism Policy in Developing Countries (document TD/B/C.3/89), presented at the fifth session of the Committee on Invisibles and Financing related to Trade; accompanied by four annexes comprising country studies of the development of tourism in Greece, Israel, Mexico and Yugoslavia.

<sup>8/</sup> Guidelines for tourism statistics (document TD/B/C.3/86); this document was prepared with the collaboration of the United Nations Statistical Office, the International Monetary Fund and the International Union of Official Travel Organizations.

regional economic commissions and invites them to study means of implementing the recommendations in the light of the situation in their respective regions <sup>9/</sup>.

Of special importance for the promotion of international tourism in the Latin American countries would be a comparative analysis of the structure of airline fares on the routes concerned, with a view to determining how far the existing structure constitutes an obstacle to the development of international tourist travel to the countries of the region. In this connexion, the draft resolution tabled by the developing countries requested the Secretary-General of UNCTAD to communicate to ICAO and IATA the contents of the resolution, so that the studies provided for by a resolution of the ICAO Assembly (June-July 1971, Vienna) would take account of the special needs of the developing countries. The ICAO resolution in question instructs the Council of ICAO to undertake a study of the principles and economic factors involved in determining international airline fares for passengers and cargo. The Latin American countries members of the Council of ICAO could take the necessary measures to ensure that the study is carried out as quickly as possible and that it is in keeping with the objectives indicated in the draft resolution presented by the developing countries to the Committee on Invisibles and Financing related to Trade and referred to the third session of UNCTAD. Alternatively, ECLA - if instructed to do so by the governments of the region - could undertake a study of the same type in co-operation with ICAO on airline routes of special interest to the Latin American countries.

The other provisions of the Lima Declaration and the draft resolution presented to the Committee on Invisibles require no further comment. Mention may, however, be made of the following points:

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<sup>9/</sup> In 1971 the studies and activities of the UNCTAD secretariat in the field of tourism were transferred to the Department of Economic and Social Affairs of the United Nations secretariat.

(i) The importance of financial and technical assistance from the developed countries to promote tourist services in the developing countries. Such assistance is particularly necessary in connexion with the hotel industry, training of personnel, development of tourism infrastructure and the expansion of the airlines of the developing countries.

(ii) Support for the establishment of the World Tourism Organization (WTO) to replace IUOTO, after ratification by fifty-one states of the statutes of the new organization, adopted at the extraordinary assembly of IUOTO held in Mexico in September 1970 <sup>10/</sup>.

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<sup>10/</sup> According to the latest available information, the governments of twenty-five states members of IUOTO have already approved the statutes of the proposed World Tourism Organization and nineteen have deposited instruments of ratification, including three Latin American countries (Colombia, Mexico and Panama).

## Chapter XI

### FINANCIAL RESOURCES FOR DEVELOPMENT

#### 1. Total inflow of public and private resources

Among the recommendations on international financial co-operation that were adopted at the First Session of UNCTAD, that contained in Annex A.IV.2 provides that each economically advanced country should endeavour to supply financial resources to the developing countries of a minimum net amount approaching as nearly as possible to 1 per cent of its national income - a target subsequently redefined as 1 per cent of the gross national product (GNP). The recommendation was ratified in 1965 by the developed countries members of the OECD Development Assistance Committee (DAC), who set a deadline of three years for its attainment and listed a number of alternative forms which the financial resources thus transferred might take (grants, official and private loans, etc.). In adopting this target, the developed countries in fact merely undertook to return to the situation prevailing between 1960 and 1962, when total financial transfers from developed to developing countries averaged 1.11 per cent of the former's combined net national income. After 1962 the average had declined, dropping to 0.95 per cent between 1965 and 1967.

At the Second Session of UNCTAD, with a view to increasing the flow of financial resources towards the developing countries, a decision was adopted (decision 27 (II)) which fixed the target more specifically as 1 per cent of the gross national product at market prices. When they adopted this redefined target, certain developed countries undertook to reach it by 1972, or 1975 at the latest, but others felt that they could not set themselves any definite deadline. The principle was ratified in the International Development Strategy, with various developed nations maintaining their original reservations.

Despite the agreements reached, however, it has not in practice proved possible to arrest the downward trend of the net financial transfers from developed countries, which dropped from an average of 0.91 per cent of the GNP in 1961-1962 to 0.74 per cent in 1970, after having fallen even

/lower in

lower in 1966 and 1967 (see table 1). Although this trend does not necessarily mean that there was a decline in the absolute volume of net transfers, it does represent a difference between the growth rate of the transfers and that of the GNP; moreover, the actual net volume of the transfers is determined by the ratio between the gross transfers and servicing payments in connexion with the external debt and private foreign investment. Hence, as we shall see, the importance of the degree of liberalization of the terms and conditions under which some flows of financial resources towards developing countries are effected.

Table 2 shows the net flow of financial resources to developing countries from the 16 DAC countries during the three-year periods 1965-1967 and 1968-1970, in relation to their respective gross national products. The average for all the DAC countries taken together rose only slightly (from 0.74 to 0.76 per cent), despite the fact that 14 countries increased their transfers in certain cases by a substantial amount (Denmark, Norway and the Federal Republic of Germany). The relative decrease in the net flow of resources from the United States - which resulted from its maintenance at approximately the same absolute value in dollars at current prices - almost entirely offset these relative increases. There was also a decline in the coefficient for Switzerland. The United States share in the flow of resources is decisive, since its GNP in 1969 represented 51.5 per cent of the total GNP of the DAC countries

During the three-year period 1968-1970, the 1 per cent target was attained by five developed countries: Belgium, Federal Republic of Germany, France, Netherlands and Portugal. Five others fell substantially short of the target: Austria, Canada, Norway, Sweden and the United States. The remaining six countries registered coefficients below 1 per cent but equal to or higher than 0.8 per cent.

Generally speaking, therefore, progress towards the 1 per cent target has been limited. Particularly significant in this connexion, because of its unfavourable nature and because of its tremendous relative importance, is the downward trend registered in the United States.

/Table 1

Table 1

THE FLOW OF FINANCIAL RESOURCES FROM DAC COUNTRIES <sup>a/</sup> TO DEVELOPING COUNTRIES AND MULTILATERAL INSTITUTIONS, 1965-1970

(Thousands of millions of dollars)

|   | 1965  | 1966  | 1967  | 1968  | 1969  | 1970 <sup>b/</sup> |
|---|-------|-------|-------|-------|-------|--------------------|
| <b>Net disbursements</b>                                      |       |       |       |       |       |                    |
| Total, official and private                                   | 10.36 | 10.28 | 11.24 | 13.06 | 13.68 | 14.71              |
| Total official  | 6.17  | 6.45  | 7.01  | 7.05  | 7.21  | 7.95               |
| Official development assistance                               | 5.87  | 6.07  | 6.62  | 6.32  | 6.62  | 6.81               |
| Grants and multilateral contributions <sup>c/</sup>           | 4.07  | 4.08  | 4.33  | 4.02  | 4.31  | 4.41               |
| Bilateral loans   | 1.80  | 1.99  | 2.29  | 2.30  | 2.32  | 2.40               |
| Other official flows  | 0.30  | 0.38  | 0.40  | 0.72  | 0.58  | 1.14               |
| Total private <sup>d/</sup>                                   | 4.18  | 3.83  | 4.23  | 6.01  | 6.47  | 6.76               |
| Direct and portfolio investment                               | 3.43  | 2.70  | 3.22  | 4.41  | 4.51  | 4.59               |
| Private export credits  | 0.75  | 1.12  | 1.01  | 1.60  | 1.96  | 2.17               |
| <b>Indicis of volume (Net disbursements)</b>                  |       |       |       |       |       |                    |
| Total flow as share of GNP (%)                                | 0.78  | 0.71  | 0.72  | 0.78  | 0.75  | 0.74               |
| Total official flow as share of GNP (%)                       | 0.48  | 0.45  | 0.46  | 0.43  | 0.39  | 0.40               |
| Official development assistance as share of GNP (%)           | 0.44  | 0.42  | 0.43  | 0.38  | 0.36  | 0.34               |
| Private flow as share of GNP (%)                              | 0.31  | 0.26  | 0.27  | 0.36  | 0.36  | 0.34               |
| <b>Indicis of terms (Commitments)</b>                         |       |       |       |       |       |                    |
| Grants as share of total official commitments (%)             | 60.9  | 62.2  | 56.1  | 51.4  | 59.0  | ...                |
| Weighted average maturity of official loans (years)           | 22.6  | 25.1  | 24.0  | 26.0  | 24.3  | ...                |
| Weighted average grace period of official loans (years)       | 4.6   | 5.8   | 5.5   | 6.0   | 6.1   | ...                |
| Weighted average interest rate of official loans (%)          | 3.6   | 3.1   | 3.8   | 3.6   | 3.5   | ...                |
| Grant element of total official commitments (%) <sup>e/</sup> | 77.0  | 81.0  | 76.0  | 75.0  | 79.0  | ...                |

Source: World Bank, International Development Association, Annual Report 1971, table 3.

N.B.: Items may not add up to the totals given, due to rounding.

<sup>a/</sup> Australia, Austria, Belgium, Canada, Denmark, France, Germany, Italy, Japan, Netherlands, Norway, Portugal, Sweden, Switzerland, United Kingdom and United States.

<sup>b/</sup> Preliminary figures.

<sup>c/</sup> Including "grant-like" flows expressed in recipients' currencies.

<sup>d/</sup> Excluding grants by private voluntary services, which in 1970 totalled an estimated 840 million dollars from all DAC countries.

<sup>e/</sup> On the basis of a conversion rate of 10 per cent.

Table 2

DAC COUNTRIES: NET FLOW OF TOTAL FINANCIAL RESOURCES  
IN RELATION TO GNP

(Percentages)

|                             | Average<br>1965-1967 | Average<br>1968-1970 | Share of total<br>GNP of DAC<br>countries in<br>1969 |
|-----------------------------|----------------------|----------------------|--|
| Australia                   | 0.67                 | 0.85                 | 1.7  |
| Austria                     | 0.48                 | 0.63                 | 0.7  |
| Belgium                     | 1.00                 | 1.16                 | 1.2  |
| Canada                      | 0.42                 | 0.55                 | 4.0  |
| Denmark                     | 0.18                 | 0.80                 | 0.7  |
| Federal Republic of Germany | 0.74                 | 1.11                 | 8.3  |
| France                      | 1.22                 | 1.27                 | 7.6  |
| Italy                       | 0.62                 | 0.85                 | 4.5  |
| Japan                       | 0.61                 | 0.81                 | 9.0  |
| Netherlands                 | 1.15                 | 1.30                 | 1.5  |
| Norway                      | 0.38                 | 0.68                 | 0.5  |
| Portugal                    | 1.16                 | 1.17                 | 0.3  |
| Sweden                      | 0.44                 | 0.61                 | 1.5  |
| Switzerland                 | 0.99                 | 0.85                 | 1.0  |
| United Kingdom              | 0.87                 | 0.93                 | 6.0  |
| United States               | 0.71                 | 0.57                 | 51.5   |
| <u>Total DAC countries</u>  | <u>0.74</u>          | <u>0.76</u>          | <u>100.0</u>   |

Source: OECD, Development Assistance, 1970 Review (Paris, December 1970), table 8, and estimates for 1970.

/(a) Official



(a) Official assistance: its crucial importance

No less, or perhaps even more, significant than the 1 per cent target for total net flow is the target for official development assistance. The exceptional importance of bilateral and multilateral official transfers in relation to total financial transfers was acknowledged at the second Session of UNCTAD, and although no agreement could be on a minimum percentage for such official transfer, a number of developed countries expressed their intention of increasing their official assistance to at least 0.75 per cent of their GNP. Subsequently, the International Strategy stipulated (paragraph 43) that: "Each economically advanced country will progressively increase its official development assistance to the developing countries and will exert its best efforts to reach a minimum net amount of 0.7 per cent of its gross national product at market prices by the middle of the Decade".

However, clear though the relevant part of the Strategy is in this respect, only a few countries have indicated their unreserved intention of complying with the objective, namely: Belgium, the Netherlands, Norway, Portugal and Sweden, whose combined GNP amounted in 1969 to one-twentieth of the total GNP of the DAC countries. Canada, for its part, has declared its readiness to make annual increments in the percentage of its national income assigned to official assistance, while the Federal Republic of Germany has stated its intention of raising its own assistance by 11 per cent per year up to the 0.7 per cent target, but without stipulating any deadline.

The other nine member countries of DAC have not entered into any commitment on the subject; they include four of the largest industrialized nations (Italy, Japan, the United Kingdom and the United States) <sup>1/</sup>, whose combined GNP accounted in 1969 for 71 per cent of the total for DAC countries.

The total flow of official financial resources dropped from 0.46 per cent of the GNP of DAC countries in 1965-1967 to 0.41 per cent in 1968-1970. Over the same period, official development assistance - which includes only transfers for development purposes and corresponds exactly with the concept of assistance used in the International

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<sup>1/</sup> As will be seen below, France is in a different situation, as its official development assistance already stands at around 0.7 per cent of its GNP.

Development Strategy - declined even more sharply, from 0.43 to 0.36 per cent (see table 3); this percentage was even lower in 1970, when it stood at 0.33 per cent. In other words, not only has little progress been made in the attainment of the official development assistance targets, but the flow itself has been steadily declining in relative terms to a point where the coefficient for 1970 stood at less than half the 0.7 per cent target.

Trends have varied fairly widely from one DAC country to another. At one end of the scale there are the countries - nine in all - which have more or less reached the 0.7 per cent figure or which have improved their coefficient substantially, namely: Australia, Canada, Denmark, France, the Netherlands, Norway, Portugal, Sweden and Switzerland. At the other end are the remaining seven which have made no progress or have actually cut back their official development assistance: Austria, Belgium, Federal Republic of Germany, Italy, Japan, United Kingdom and United States. The biggest reductions, incidentally, were in the assistance provided by Austria, the United Kingdom and the United States (see again table 3).

In order to place the 0.7 per cent official development assistance target in its true perspective, it should be noted that the combined GNP of the DAC countries in 1969 was around 1,850 thousand million dollars. Since official assistance for that year amounted to 0.36 per cent, the attainment of the 0.7 per cent target would mean an increase of about 6,300 million dollars in the annual flow. A better idea of the magnitude of this sum can be gained if one considers, for example, that it is equal to twice the annual distribution of Special Drawing Rights (SDR) between 1970 and 1972 and to two and half times the total volume of loans authorized by the World Bank (IBRD) and the International Development Association (IDA) for the 1970/1971 financial year.

A theoretical calculation of how the 6,300 million dollar estimated difference for 1969 would have been distributed among the DAC countries shows the United States as accounting for 3,500 million dollars, Japan for 730 million, Federal Republic of Germany for 430 million, Italy for 440 million, the United Kingdom for 340 million and Canada for 260 million. In other words, these six countries, which generate some 83 per cent of the total GNP of the DAC countries, account for over 91 per cent of the figure on which this calculation is based.

Table 3

DAC COUNTRIES: NET FLOW OF OFFICIAL DEVELOPMENT ASSISTANCE  
IN RELATION TO GNP

(Percentages)

|                             | Average<br>1965-1967 | Average<br>1968-1970 |
|-----------------------------|----------------------|----------------------|
| Australia                   | 0.55                 | 0.57                 |
| Austria                     | 0.30                 | 0.15                 |
| Belgium                     | 0.49                 | 0.47                 |
| Canada                      | 0.28                 | 0.34                 |
| Denmark                     | 0.18                 | 0.34                 |
| Federal Republic of Germany | 0.39                 | 0.38                 |
| France                      | 0.72                 | 0.68                 |
| Italy                       | 0.15                 | 0.17                 |
| Japan                       | 0.29                 | 0.25                 |
| Netherlands                 | 0.43                 | 0.55                 |
| Norway                      | 0.17                 | 0.31                 |
| Portugal                    | 0.73                 | 0.74                 |
| Sweden                      | 0.23                 | 0.36                 |
| Switzerland                 | 0.08                 | 0.15                 |
| United Kingdom              | 0.46                 | 0.38                 |
| United States               | 0.46                 | 0.34                 |
|                             | <u>0.43</u>          | <u>0.36</u>          |

Source: OECD, Development Assistance, 1970 Review (Paris, December 1970), table 9, and UNCTAD, The flow of financial resources and liberalization of terms and conditions of assistance (TD/B/C.3/S7), 1 September 1971, table 4.

/To put

To put the matter in a nutshell, what the above exercise shows is that the really vital factor for the developing countries as far as their public and private assistance requirements are concerned is the progressive attainment by the developed countries of the annual official development assistance target of 0.7 per cent of the GNP; and this can only come about if concrete action is taken by the economically most powerful undustrialized nations.

The situation becomes even clearer if one considers that, in relation to the GNP of the DAC countries, the flow of private financial resources, which stood at 0.28 per cent in 1965-1967, rose to 0.35 per cent in 1968-1970. This means that the residual development assistance target of 0.3 per cent set for this type of resources has already been attained; in fact, most DAC countries have registered coefficients of around 0.3 per cent. It must not be forgotten however, that these figures include direct foreign investment and that the developing countries emphasized in the Lima Action Programme that the target should be met without the inclusion of this item which, because of its commercial nature, is quite a different concept from development assistance.

(b) The flow of public and private resources into Latin America

Between 1965 and 1969, Latin America <sup>2/</sup> was, of all regions, the biggest beneficiary of gross disbursements of total loans and grants; over the same period its share of such assistance among all the developing countries rose from 29 to 34 per cent. East Asia, the Middle East and Southern Europe also increased their share, whereas that of Africa and South Asia declined (see table 4).

Latin America's larger share of the total distribution of loans and grants dwindles significantly, however, if allowance is made for the source of financing, which is what determines the conditions of indebtedness. Table 4 shows how, in some regions, official grants and official bilateral credits, and, in others, multilateral loans and credits, account for a larger proportion of the total external finance. These kinds of financing are generally thought of as offering "soft" or relatively favourable loan and conditions. In Latin America however, 50 per cent of the region's external financing is made up of private loans and credits which are known to carry "harder" conditions in terms of maturity, interest and grace periods.

<sup>2/</sup> The region is taken as comprising the 19 countries listed in table 6, excluding Haiti but including Guyana, Jamaica and Trinidad and Tobago. The entire group of countries is listed as Western Hemisphere in tables 4, 5, 9 and 10.

Table 4

DISTRIBUTION OF LOANS AND GRANTS TO DEVELOPING COUNTRIES BY REGION, SOURCE AND CATEGORY OF TRANSACTION (GROSS DISBURSEMENTS), 1965-1969

(Percentages)

| Region and year                       | Private loans and credits |                  |       | Official grants | Official bilateral loans and credits |                    |       | Multi-lateral and credits | Total (percentage by region) |
|---------------------------------------|---------------------------|------------------|-------|-----------------|--------------------------------------|--------------------|-------|---------------------------|------------------------------|
|                                       | Supplier credits          | Other private a/ | Total |                 | DAC countries                        | Other countries b/ | Total |                           |                              |
| <b>Africa</b>                         |                           |                  |       |                 |                                      |                    |       |                           |                              |
| 1965                                  | 9                         | 3                | 12    | 48              | 22                                   | 11                 | 33    | 7                         | 22                           |
| 1967                                  | 9                         | 10               | 19    | 42              | 24                                   | 7                  | 31    | 8                         | 17                           |
| 1969                                  | 7                         | 3                | 10    | 53              | 18                                   | 6                  | 24    | 13                        | 16                           |
| <b>East Asia</b>                      |                           |                  |       |                 |                                      |                    |       |                           |                              |
| 1965                                  | 20                        | 16               | 36    | 41              | 13                                   | 3                  | 16    | 7                         | 10                           |
| 1967                                  | 26                        | 4                | 30    | 33              | 31                                   | -                  | 31    | 6                         | 12                           |
| 1969                                  | 27                        | 8                | 35    | 25              | 33                                   | -                  | 33    | 7                         | 15                           |
| <b>Middle East</b>                    |                           |                  |       |                 |                                      |                    |       |                           |                              |
| 1965                                  | 9                         | 20               | 29    | 36              | 15                                   | 15                 | 30    | 5                         | 7                            |
| 1967                                  | 16                        | 26               | 42    | 13              | 26                                   | 17                 | 43    | 2                         | 8                            |
| 1969                                  | 14                        | 25               | 39    | 9               | 29                                   | 17                 | 46    | 6                         | 8                            |
| <b>South Asia</b>                     |                           |                  |       |                 |                                      |                    |       |                           |                              |
| 1965                                  | 4                         | 1                | 5     | 35              | 38                                   | 9                  | 47    | 13                        | 25                           |
| 1967                                  | 6                         | 1                | 7     | 31              | 38                                   | 10                 | 48    | 14                        | 24                           |
| 1969                                  | 10                        | 1                | 11    | 18              | 48                                   | 10                 | 58    | 13                        | 17                           |
| <b>Southern Europe</b>                |                           |                  |       |                 |                                      |                    |       |                           |                              |
| 1965                                  | 19                        | 6                | 25    | 9               | 51                                   | 2                  | 53    | 13                        | 7                            |
| 1967                                  | 19                        | 12               | 31    | 5               | 45                                   | 3                  | 48    | 16                        | 8                            |
| 1969                                  | 6                         | 28               | 34    | 2               | 44                                   | 6                  | 50    | 14                        | 10                           |
| <b>Western Hemisphere</b>             |                           |                  |       |                 |                                      |                    |       |                           |                              |
| 1965                                  | 15                        | 32               | 47    | 21              | 20                                   | 1                  | 21    | 12                        | 29                           |
| 1967                                  | 18                        | 31               | 49    | 15              | 22                                   | 1                  | 23    | 13                        | 31                           |
| 1969                                  | 18                        | 32               | 50    | 18              | 20                                   | -                  | 20    | 12                        | 34                           |
| <b>Total (percentage by category)</b> |                           |                  |       |                 |                                      |                    |       |                           |                              |
| 1965                                  | 11                        | 12               | 23    | 33              | 27                                   | 7                  | 34    | 10                        | 100                          |
| 1967                                  | 14                        | 13               | 27    | 26              | 30                                   | 6                  | 36    | 11                        | 100                          |
| 1969                                  | 14                        | 16               | 30    | 22              | 31                                   | 5                  | 36    | 12                        | 100                          |

Source: World Bank, International Development Association, Annual Report 1971, table 4.

a/ Mainly loans from private banks, bonds and other funded debt.

b/ Mainly Sino-Soviet countries.

/As its

As its external financing requirements grew, Latin America did not enjoy correspondingly increased access to more favourable kinds of loans, such as official credits, or virtually free assistance such as official grants. It therefore had to turn largely to private credits and loans, mostly comprising export or supplier credits, which are made available only on a short-term, high-interest basis. As a result, all the other developing regions - South Asia, East Asia, Middle East, Southern Europe and Africa - benefitted from more favourable loan conditions than Latin America, thanks to their relatively greater use, all in all, of official grants and credits and multilateral loans to finance their development.

The outcome of this trend was that the average terms of the loan commitments of the developing countries as a whole between 1965 and 1969 were: maturity, 19.1 years; grace period, 4.5 years, rate of interest, 4.6 per cent. With the exception of the Middle East, Latin America bore the harshest terms on its loan commitments: maturity, 14.6 years; grace period, 3.4 years; and interest rate, 5.9 per cent, which is higher than for any other region in the world (see table 5).

It is clear from the foregoing that Latin America has a vital interest in the rapid and effective achievement of the targets that have been set as regards the volume and composition of the flow of financial resources towards developing countries. However great an effort the countries of the region may make internally in order to avoid balance-of-payments problems, a substantial improvement in the volume and composition of assistance is in any case called for.

Another interesting aspect of the flow of public and private resources towards Latin America is the evolution of its structure in terms of the recipient countries. For purposes of comparison, table 6, which analyses the situations existing in 1965-1967 and 1968-1970, breaks down the countries of the region into three categories: relatively more developed countries, countries at an intermediate stage of development, and relatively less developed countries.

Table 5  
 AVERAGE TERMS OF LOAN COMMITMENTS, BY DEVELOPING REGION  
 (1965-1969 average and indices)

|                                  | Maturity |       | Grace period |       | Interest   |       |
|----------------------------------|----------|-------|--------------|-------|------------|-------|
|                                  | Years    | Index | Years        | Index | Percentage | Index |
| Average for developing regions   | 19.1     | 100   | 4.5          | 100   | 4.6        | 100   |
| Middle East <sup>a/</sup>        | 13.0     | 68    | 2.2          | 49    | 4.7        | 102   |
| Western Hemisphere <sup>b/</sup> | 14.6     | 76    | 3.4          | 76    | 5.9        | 129   |
| Southern Europe                  | 16.5     | 86    | 4.1          | 91    | 4.5        | 98    |
| East Asia                        | 17.5     | 92    | 4.5          | 100   | 4.9        | 106   |
| Africa                           | 22.2     | 116   | 5.0          | 111   | 3.8        | 84    |
| South Asia                       | 29.2     | 153   | 7.0          | 156   | 2.7        | 60    |

Source: World Bank, International Development Association, Annual Report 1971, table 10.

<sup>a/</sup> Excludes Israel.

<sup>b/</sup> Excludes Brazil.

/Table 6

Table 6

## FLOW OF FINANCIAL RESOURCES TO LATIN AMERICA, 1965-1970

(Millions of dollars)

|  | Total net disbursements of official and private loans |                  | Net official grants |                | Foreign investment (minus depreciation) |                  | Total loans and net official grants (1) + (2) |                  | Total flow of financial resources (1) + (2) + (3) |                  |
|--|---|------------------|---------------------|----------------|---|------------------|---|------------------|---|------------------|
|  | 1965-1967   | 1968-1970        | 1965-1967           | 1968-1970      | 1965-1967                               | 1968-1970        | 1965-1967                                     | 1968-1970        | 1965-1967   | 1968-1970        |
|  | (1)   | (2)              | (3)                 | (4)            | (5)                                     | (6)              | (7)   | (8)              | (9)   | (10)             |
| Argentina  | -418.0  | 464.0            | -5.0                | -7.0           | 76.0                                    | -8.0             | -423.0  | 457.0            | -347.0  | 449.0            |
| Brazil   | -275.0  | 2 214.0          | 97.0                | 44.0           | 428.0                                   | 516.0            | -178.0  | 2 258.0          | 250.0   | 2 774.0          |
| Mexico   | 1 023.0   | 1 013.0          | 6.0                 | -1.0           | 527.0                                   | 829.0            | 1 029.0                                       | 1 012.0          | 1 556.0   | 1 841.0          |
| <u>Relatively more developed countries</u>               | <u>(330.0)</u>  | <u>(3 691.0)</u> | <u>(98.0)</u>       | <u>(36.0)</u>  | <u>(1 091.0)</u>                        | <u>(1 337.0)</u> | <u>(428.0)</u>                                | <u>(3 727.0)</u> | <u>(1 459.0)</u>                                  | <u>(5 064.0)</u> |
| Chile  | 393.0   | 410.7            | 26.0                | 34.0           | -44.0                                   | 205.8            | 419.0   | 444.7            | 375.0   | 650.5            |
| Colombia   | 155.0   | 647.0            | 40.0                | 90.0           | 92.0                                    | 167.0            | 195.0   | 737.0            | 287.0   | 904.0            |
| Peru   | 626.0   | 274.0            | 41.0                | 129.0          | 86.0                                    | -115.0           | 667.0   | 403.0            | 753.0   | 288.0            |
| Uruguay  | -13.2   | 90.3             | 24.9                | 15.0           | -                                       | -                | -11.7   | 105.3            | 11.7  | 105.3            |
| Venezuela  | 312.0   | 413.0            | -6.0                | -14.0          | -139.0                                  | 467.0            | 306.0   | 399.0            | 167.0   | 866.0            |
| <u>Countries at an intermediate stage of development</u> | <u>(1 472.8)</u>                                      | <u>(1 835.0)</u> | <u>(125.9)</u>      | <u>(254.0)</u> | <u>(-5.0)</u>                           | <u>(724.8)</u>   | <u>(1 598.7)</u>                              | <u>(2 089.0)</u> | <u>(1 593.7)</u>                                  | <u>(2 813.8)</u> |
| Bolivia  | 64.3  | 221.9            | 46.8                | 18.1           | 15.0                                    | -60.9            | 111.1   | 240.0            | 126.1   | 179.1            |
| Ecuador  | 77.1  | 100.2            | 21.4                | 27.7           | 39.8                                    | 169.2            | 98.5  | 127.9            | 138.3   | 297.1            |
| Paraguay   | 50.8  | 85.8             | 9.0                 | 8.1            | 7.3                                     | 9.0              | 59.8  | 93.9             | 67.1  | 102.9            |
| Dominican Republic                                       | 58.8  | 132.4            | 75.6                | 3.7            | 6.0                                     | 111.1            | 134.4   | 136.1            | 140.4   | 247.2            |
| Haiti  | 3.8   | 0.7              | 12.1                | 15.7           | 3.0                                     | 6.1              | 15.9  | 16.4             | 18.9  | 22.5             |
| Panama   | 96.2  | 294.5            | 26.4                | 19.1           | 19.8                                    | 50.5             | 122.6   | 313.6            | 142.4   | 364.1            |
| Costa Rica   | 128.5   | 113.7            | 11.3                | 13.0           | 30.4                                    | 54.7             | 139.8   | 126.7            | 170.2   | 181.4            |
| El Salvador  | 63.0  | 44.6             | 11.1                | 7.7            | 25.5                                    | 20.9             | 74.1  | 52.3             | 99.6  | 73.2             |
| Guatemala  | 81.0  | 44.8             | 9.2                 | 5.0            | 46.8                                    | 69.7             | 90.2  | 49.8             | 137.0   | 119.5            |
| Honduras   | 38.2  | 80.8             | 11.3                | 10.7           | 23.2                                    | 31.6             | 49.5  | 91.5             | 72.7  | 123.1            |
| Nicaragua  | 92.5  | 103.7            | 11.3                | 9.9            | 34.9                                    | 43.4             | 103.8   | 113.6            | 138.7   | 157.0            |
| <u>Relatively less developed countries</u>               | <u>(754.2)</u>  | <u>(1 223.1)</u> | <u>(245.5)</u>      | <u>(138.7)</u> | <u>(251.7)</u>                          | <u>(505.3)</u>   | <u>(999.7)</u>                                | <u>(1 361.8)</u> | <u>(1 251.4)</u>                                  | <u>(1 867.1)</u> |
| <u>Latin America</u>                                     | <u>2 557.0</u>  | <u>6 749.1</u>   | <u>469.4</u>        | <u>428.7</u>   | <u>1 277.7</u>                          | <u>2 567.1</u>   | <u>3 026.4</u>                                | <u>7 177.8</u>   | <u>4 304.1</u>                                    | <u>9 744.9</u>   |

Source: ECLA, on the basis of official statistics.

Net disbursements



Net disbursements of official and private loans rose from 2,557 million dollars in 1965-1967 to 6,749 million dollars in 1968-1970. The effects of this increase differed widely, however, from country to country and from one group to another. Among the large countries, the increase was considerable, particularly in the case of Brazil. Although there was no increase in Mexico, the general flow remained fairly high. Argentina progressed from a negative flow to a positive flow, but the accumulated balance over the six years was low. Judging from available information, moreover, the flow of credits into these three countries during the period 1968-1970 was made up for the most part of private short-term loans at fairly high interest rates.

Among the relatively less developed countries and those at an intermediate stage of development, seven countries (Chile, Costa Rica, El Salvador, Guatemala, Haiti, Nicaragua and Peru) registered either a minimal increase or an actual decrease in their net use of official and private loans between 1965-1967 and 1968-1970. The decline was particularly marked in Peru, Guatemala and El Salvador. During the whole period 1965-1970, Haiti received virtually no net official and private loans at all.

Latin America's net inflow of official grants dropped between these two periods, the countries hardest hit being Bolivia, Brazil and the Dominican Republic.

Finally, as regards foreign investment the inflow minus depreciation but including remittances of profits doubled between 1965-1967 and 1968-1970. Three countries - Chile, Mexico and Venezuela - accounted for about 90 per cent of the increase.

It will be appreciated from the foregoing, therefore, that the flow of financial resources to Latin America has been fairly unevenly distributed. While certain countries received a much greater net inflow in 1968-1970 than in 1965-1967, other countries saw their own intake of resources remain at much the same level or even decline, although it is true that in some cases their circumstances had changed considerably in the meantime.

(c) Development assistance from the socialist countries of Eastern Europe and Asia

In addition to the data on development assistance from the DAC countries, it is of interest to note some figures relating to assistance from the socialist countries of Eastern Europe and Asia. Since there are no official statistics on the subject, the data in table 7, which were compiled by the UNCTAD secretariat, are merely an estimate of the commitments of those countries.

It will be seen that the volume of annual commitments between 1961 and 1969 remained fairly constant at around 700 million dollars. In 1970, by contrast, the figure leapt to 1,700 million dollars, largely because of the increased development activity of the People's Republic of China, though there was also a sharp rise in the development assistance commitments of the USSR, Bulgaria and Hungary.

2. Terms and conditions of the flow of public capital to developing countries

(a) General terms of official development assistance

In addition to restating the objective that developing nations should devote 0.7 per cent of their GNP to official assistance to developing countries, the Lima Programme of Action stresses the need for general acceptance of certain recommended terms under which such assistance should be made available, thereby pursuing the underlying train of thought of both the Second Session of UNCTAD and the Pearson Report.

Thus the Programme states: "... interest rates on official development loans should not exceed 2 per cent per annum, maturity periods on such loans should be at least 25 to 40 years, and grace periods should not be less than 7 to 10 years; the proportion of grants in total assistance of each developed country should be progressively increased".

/Table 7

Table 7

COMMITMENTS FOR BILATERAL ECONOMIC ASSISTANCE TO DEVELOPING  
COUNTRIES ENTERED INTO BY THE SOCIALIST COUNTRIES OF  
EASTERN EUROPE AND ASIA, 1961-1970 <sup>a/</sup>

(Millions of dollars)

|                              | Annual<br>average<br>1961-1965 | Annual<br>average<br>1966-1970 | 1968       | 1969       | 1970         |
|------------------------------|--------------------------------|--------------------------------|------------|------------|--------------|
| Bulgaria                     | 5                              | 35                             | 45         | 20         | 82           |
| China (People's Republic of) | 127                            | 149                            | 42         | -          | 695          |
| Czechoslovakia               | 66                             | 112                            | 200        | 37         | 45           |
| German Democratic Republic   | 50                             | 100                            | 8          | 134        | 125          |
| Hungary                      | 35                             | 47                             | 40         | 21         | 79           |
| Poland                       | 60                             | 22                             | 20         | 30         | 25           |
| Romania                      | 34                             | 36                             | 25         | 132        | 10           |
| USSR                         | 334                            | 503                            | 368        | 402        | 633          |
| <u>Total</u>                 | <u>711</u>                     | <u>1 004</u>                   | <u>748</u> | <u>776</u> | <u>1 694</u> |

Source: UNCTAD, The flow of financial resources and liberalization of terms and conditions of assistance (TD/B/C.3/97), table 6.

<sup>a/</sup> Excluding commitments to Cuba.

/The first

The first observation that this calls for is that it would probably be useful to define the conditions recommended as regards maturity periods, grace periods and the proportion of grants more specifically. As regards the proportion of grants, the Programme gives no quantitative definition of the objective pursued, while the accepted margin of variation of maturity and grace periods seems very broad. There appears to be no clear reason for such ambiguity, and UNCTAD III should provide an excellent opportunity to establish more specific recommendations.

The second observation to be made is that table 1 indicated a slight improvement in the terms of official loans to developing countries between 1965-1967 and 1968-1970, as regards maturity periods (23.9 to 25.1 years) and grace periods (5.3 to 6.0 years); in other words, the lower limits of the stated objective of the Lima Programme were almost attained in both cases. On the other hand, the weighted average interest rate on official loans rose slightly between the two periods (from 3.5 to 3.6 per cent annually), while table 4 shows that the proportion of official grants in the total assistance dropped sharply between 1965 and 1969 (from 33 to 22 per cent).

Considering that these changes took place over a period when official development assistance from the developed countries declined in relative terms, the progress made seems rather meagre, all in all, compared with the targets set. Naturally, this situation highlights the commitments that developed countries ought to undertake in this field.

The achievement of progress in this field is particularly vital to Latin America, for there are signs of a general worsening of the conditions on which the region receives official assistance. Table 8, for example, shows that between 1966-1967 and 1968-1970 the average maturity period was reduced from 19.7 to 18.9 years and the average grace period from 5.5 to 5.4 years, while the annual rate of interest rose from 4.2 to 5.2 per cent. This state of affairs is quite different from that prevailing in the rest of the developing world.

/Table 8

Table 8  
AVERAGE WEIGHTED TERMS UNDER WHICH CERTAIN OFFICIAL LOANS  
HAVE BEEN GRANTED <sup>a/</sup>

|                    | 1966-1967 |              |          | 1968-1970 <sup>b/</sup> |              |          |
|--------------------|-----------|--------------|----------|-------------------------|--------------|----------|
|                    | Maturity  | Grace period | Interest | Maturity                | Grace period | Interest |
| Latin America      | 19.70     | 5.54         | 4.16     | 18.91                   | 5.38         | 5.22     |
| Argentina          | 17.06     | 3.79         | 4.45     | 15.09                   | 4.10         | 6.34     |
| Bolivia            | 18.55     | 4.80         | 2.73     | 24.26                   | 6.92         | 3.62     |
| Brazil             | 22.84     | 6.86         | 3.93     | 19.31                   | 5.64         | 5.22     |
| Chile              | 16.98     | 4.61         | 4.71     | 21.19                   | 6.21         | 4.25     |
| Colombia           | 22.14     | 6.60         | 3.98     | 21.11                   | 6.19         | 4.99     |
| Costa Rica         | 22.51     | 6.73         | 3.31     | 21.54                   | 6.11         | 4.59     |
| Dominican Republic | 26.26     | 8.26         | 2.93     | 25.21                   | 7.45         | 3.42     |
| Ecuador            | 19.49     | 5.03         | 3.91     | 24.03                   | 6.52         | 3.42     |
| El Salvador        | 22.34     | 6.98         | 4.50     | 25.36                   | 7.18         | 3.27     |
| Guatemala          | 20.14     | 5.25         | 3.98     | 16.25                   | 5.21         | 4.55     |
| Honduras           | 21.19     | 5.51         | 3.64     | 25.21                   | 6.99         | 3.68     |
| Mexico             | 12.61     | 2.84         | 5.12     | 15.45                   | 4.15         | 6.44     |
| Nicaragua          | 24.73     | 7.42         | 3.01     | 21.46                   | 6.24         | 4.03     |
| Panama             | 26.84     | 8.10         | 2.69     | 21.61                   | 6.35         | 4.96     |
| Paraguay           | 25.81     | 6.75         | 2.72     | 19.35                   | 5.62         | 3.54     |
| Peru               | 20.09     | 5.12         | 3.62     | 16.32                   | 4.02         | 4.43     |
| Uruguay            | 16.52     | 3.59         | 4.25     | 21.94                   | 6.38         | 4.57     |
| Venezuela          | 13.65     | 3.54         | 5.92     | 14.12                   | 3.82         | 5.84     |
| Haiti              | 19.55     | 3.70         | 2.25     | 18.40                   | 3.83         | 2.50     |

Source: United States Government, Foreign Credits (June 1970); US-AID, Statement of Loans (June 1971); IDB, Annual Report 1970; and World Bank, International Development Association, Annual Report 1971.

<sup>a/</sup> Includes authorizations by US-AID, EXIMBANK, IDB, IBRD and IDA.

<sup>b/</sup> Loan authorizations under United States Law 480 and EXIMBANK authorizations are included only up to June 1970.

/(b) Multilateral

(b) Multilateral interest equalization fund

Despite the importance of this proposal for the developing countries - especially in the light of the unfavourable turn that interest payable on loans for development financing has taken in recent years - several developed nations have placed obstacles in the way of the establishment of such a fund. As a result, little progress has been made and the Secretary-General of UNCTAD has not even been authorized to convene an intergovernmental group to consider the question of establishing a multilateral interest equalization fund, for which the developing countries have been clamouring ever since the second Session of UNCTAD (April-May 1968). A draft resolution was submitted to the fourth session of the Committee on Invisible and Financing related to Trade 3/ (July 1970) in order to obtain this authorization; the matter was not taken up on that occasion but was referred to the eleventh session of the Trade and Development Board, held in August-September 1971, where the draft resolution, however, again failed to win approval. The vital importance of the subject was subsequently reiterated in the Lima Action Programme.

These considerations, and the fact that so much time has passed without any significant progress being made, suggest that the first step that the developing countries should take is to obtain approval for the convening of the intergovernmental group in question.

Another possibility that has been suggested for reducing interest rates, although only of limited applicability, arises from the increasing recognition by the developed countries that the terms on which the World Bank authorizes loans are too hard for many of the recipient countries, particularly since the institution has been raising its interest rates

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3/ See UNCTAD, Report of the Committee on Invisibles and Financing related to Trade on its fourth session (TD/B/318), annex IV.C.

in recent years. The suggestion is that one feasible method of equalizing interest rates within the context of the World Bank's operations would be to make a greater use of "mixed" funds of the Bank and of IDA 4/.

The developing countries have made several moves in this connexion and have requested the IBRD authorities to review their development loans policy so as to incorporate the system of mixed funds 5/. It is in any case to be expected that, for the proposal to make further headway, IDA will have to expand its credit operations in terms of both its coverage of projects and the number of developing countries involved. Steps should be taken to back up this initiative, whose realization would mean increasing IDA resources beyond the proposed level for the third replenishment.

(c) Relative importance and role of multilateral institutions in official development assistance

The Lima Action Programme states: "The share of resources channelled through the multilateral financing institutions should be increased to the fullest extent possible. The World Bank should be converted into a development bank for the exclusive use of the developing countries".

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4/ In this connexion, at the regional level, it is interesting to note that the question of granting loans out of mixed funds has been under discussion for some time by IADB. This procedure would involve the combined use of the IADB's ordinary resources and special funds, subject to identical terms and conditions and under a single loan contract. The idea has been steadily gaining ground, on the one hand because of the harsher terms - especially in the form of higher interest rates - that the Bank has been imposing for loans financed out of its ordinary resources, and on the other hand, because of the limitations imposed by the special conditions "tying" credits financed out of special funds. The investigations being made into the feasibility of such a system of mixed loans by IADB should therefore be speeded up.

5/ See UNCTAD, "Draft declaration on lending policies" Report of the Trade and Development Board on the first part of its tenth session (TD/B/327), Annex V.

/It can

It can be seen from table 4 that the share of multilateral loans in the total flow of public and private resources into developing countries rose from 10 per cent in 1965 to 12 per cent in 1969. Most of the increase comes from the increased flow of multilateral funds towards African countries; in the other developing regions the share of multilateral credits in total resources remained virtually constant.

In Latin America, the percentage stayed at 12 per cent between the two years considered; a substantial increase in IDB's disbursements of loans to the countries of the region was largely absorbed by the levelling off of IBRD and IDA disbursements.

On taking into account the situation of the developing countries and the statistics illustrating the slow growth of multilateral assistance, it seems clear that any possibility of a substantial increase in this kind of credit in future will depend mainly on whether a number of the largest industrialized nations reach the official development assistance target of 0.7 per cent of their GNP. So long as there is no steady advance towards this goal, it is unlikely that multilateral institutions will be able to command the rapidly increasing volume of resources obtained under "soft" terms <sup>6/</sup> which they must have in order to be able to lend under similar conditions to the developing nations.

IDA is a typical case in point. This institution continues to suffer from a serious and persistent shortage of resources, which it is all the more urgent to overcome because of the role that the developing countries want IDA to play in equalizing the interest rates charged by IBRD and in pursuing the "more flexible and equitable" lending policy advocated in the Lima Action Programme. As regards this latter point, it should be noted that, at 30 June 1971, Latin America as a whole accounted for less than 5 per cent of total current IDA loans.

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<sup>6/</sup> The reader will recall the size of the figures that were referred to earlier.



Ever since the adoption of the Charter of Algiers, the Group of 77 has been advocating that IBRD should be converted into a development bank for the exclusive use of the developing countries. No progress, however, has yet been made in the discussion of this suggestion, despite its increasing importance in view of the role that IBRD should play in the future expansion of multilateral financial assistance.

Furthermore, several nations that the IMF classes as "other developed countries" have continued receiving new loans. In the financial year 1970/1971, eight such countries received some 22 per cent of the credits authorized that year <sup>2/</sup>. A definition of IBRD policy in this respect is probably one of the top priorities in connexion with the Group of 77's suggestion that the Bank's loans to developed countries should be restricted.

Another matter arising with regard to the view that IBRD should operate exclusively for the benefit of the developing nations relates to the outstanding debt of various industrialized countries which have received loans from the Bank in the past. On 30 June 1971, eight of these had outstanding loans worth 860 million dollars (9 per cent of the total). One way of hastening the desired transformation of the Bank and of providing it with additional resources would be for these countries to volunteer - assuming their foreign exchange holdings were conducive to such action - to speed up their payments of loans received from IBRD. Moreover, it may be pointed out that the conceptual implications of such a measure would go beyond its mere financial significance.

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<sup>2/</sup> See World Bank, International Development Association, Annual Report 1971, op.cit., Appendix H.

(d) Liberalization of certain conditions of financial assistance

The Programme of Action of Lima restated and enlarged upon a number of suggestions put forward in the Charter of Algiers regarding the need to liberalize certain conditions of financial assistance. Paragraphs (vi), (vii) and (x) of section D (b) refer to the financing of investment programmes (rather than individual projects), local costs and "projects and programmes that may not be considered financially remunerative in the narrow sense but where the socio-economic impact on national development is clearly recognized", and to the channelling of a greater proportion of loans through national development banks.

Important though these objectives are, it should be pointed out that such liberalization should not be restricted to assistance provided through multilateral channels but should also be extended to bilateral public loans. The scope of the proposed liberalization should accordingly be enlarged.

As regards the specific aspect of financing investment programmes, where the essential characteristic should be the continuous basis of the financing, it would definitely seem to be the World Bank and IDA that have made the greatest strides, although Latin America has not so far benefitted from this new form of financing. It is therefore imperative that IBRD and IDA should at once extend the system of granting credits by programme to new regions and step up the volume of resources so used. Regional multilateral institutions should likewise incorporate this procedure into their loan policies.

(e) The untying of development assistance

With regard to the liberalization of conditions of assistance, the fundamental statement was made by the Charter of Algiers, which declared that multilateral and bilateral development finance should be rapidly and progressively untied, with a view to reaching the goal of total untying by a specific date, that excess costs incurred through tying should be subsidized by creditor countries, and that procurement in developing countries of supplies financed out of these credits should be freely permissible, especially where those countries are in the same region.

/For all

For all the effort that have been made to achieve these objectives, progress so far has been somewhat modest and limited to the adoption of partial measures by certain developed countries (Canada, Japan and the United Kingdom). The United States, for its part, has authorized purchases paid for out of its bilateral credit programmes to be made from developing countries. These proposals must therefore be pursued, bearing in mind the provisions of resolution 29 (II) of the second Session of UNCTAD, the International Development Strategy and the Lima Action Programme, especially the latter's statements that: "Developed countries should lay down a firm time-table for the complete untying of aid".

It is likewise important to secure approval of the complementary measures agreed to at the fourth session of the Committee on Invisibles and Financing related to Trade B/, which are designed on the one hand to facilitate the participation of enterprises of developing countries where tenders are invited in connexion with a tied credit and, on the other, to ensure that the terms and conditions of tied credits are as close as possible to "concessional" terms, as such credits have a multiplying effect benefitting the economy of the country offering them.

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B/ See UNCTAD, Report of the Committee on Invisibles and Financing related to Trade (TD/B/318), Annex II.

3. Foreign private investment in its relationship to development

The International Development Strategy (paragraph 50) and the Action Programme of Lima (section D (c), paragraphs xvii and xviii) set forth certain general principles regarding the characteristics that foreign private investment should have and the measures that could be adopted to ensure that such investment has the most beneficial impact possible on the economic and social development of the developing countries. More specific remarks are called for in regard to this matter.

(a) The Latin American experience

The cumulative total of direct foreign investment in Latin America (except Cuba) rose from 7,400 to 17,900 million dollars, i.e., 2.4 times, between 1950 and 1969. There was a parallel increase in investment in manufacturing. Thus, in 1968 for instance, nearly one-third of total United States direct investment in Latin America was channelled into the manufacturing industries (in Argentina, 64 per cent and in Mexico, 68 per cent) <sup>9/</sup>.

It is generally acknowledged that, given certain conditions, foreign investment promotes economic growth, contributes to industrialization, particularly in the new modern sectors, and facilitates the introduction of advanced techniques and the expansion of the infrastructure. Apart from these positive aspects, foreign investment also poses a number of new problems for economic development, especially in connexion with the balance-of-payments, the nature of the technological development it promotes and the autonomy of the national economies. Some remarks on these aspects are made below.

Aspects connected with the accentuation of balance-of-payments problems.  
The net balance on movements of capital, profits and other private remunerations between the developed countries and Latin America as a whole has been markedly negative. The magnitude of the deficit is made evident by a comparison of direct investment from the United States with the corresponding remittances of profits. During the period 1960-1968, the

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<sup>9/</sup> See ECLA, The expansion of international enterprises and their influence on development in Latin America, (E/CN.12/868) and Trends and structures of the Latin American economy: B. The external sector (E/CN.12/884/Add.1).

/total remittances

total remittances of profits exceeded total capital inflows by 6,700 million dollars, which is more than the surplus of 5,600 million dollars recorded for total Latin American trade during the same period 10/.

Foreign private investment has increased mainly on the basis of the surpluses generated by subsidiaries in the countries receiving the investment, and the reinvestment of these surpluses has generally been encouraged by various types of incentives and preferential treatment. A process of tapping of internal savings has also contributed to the growth of investment. This trend is illustrated by the fact that in the period 1963-1965, for instance, only 9 per cent of total United States investment in Latin America was financed with funds from the United States itself 11/.

The structural evolution of foreign investment often clashes with balance-of-payments needs, for the new dynamic sectors of industry - which, as pointed out above, absorb most of such investment - generally have a much higher component of imported inputs than traditional industries and other activities. In the circumstances, the foreign enterprise usually has no incentive of its own to replace imported components and raw materials with national inputs of the country in which its subsidiary is established: indeed, its inclination might well be rather in the opposite direction, that is to say, towards dependence on imported inputs.

This state of affairs tends to get worse, because the growing imports of inputs for the development of the foreign subsidiaries are not sufficiently balanced by foreign currency earnings from exports of goods produced by the subsidiaries, which usually prefer to concentrate on producing for the internal market, although in some countries they have collaborated in policies to promote exports of non-traditional products 12/.

Aspects relating to the flow of technology. While there is no denying the contribution - in overall terms - that foreign investment may make to technological progress in the region, consideration should be given to some important negative aspects of this mode of transfer of technology.

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10/ See ECLA, The expansion of international enterprises..., op.cit., page 58; Trends and structures..., op.cit., table 18; and The Latin American economy in 1970 (E/CN.12/890), table 6.

11/ See ECLA, The expansion of international enterprises..., op.cit., table 11.

12/ See chapter III on export promotion.

One of these concerns the close connexion between the technology transferred and the production processes employed by the parent firm of the foreign subsidiary. Understandably, the restriction of freedom of choice in this type of transfer is much more marked than, for example, where external credits are used and it may consequently lead to choices of technology that are unsuitable or too costly for the economies of the developing countries.

The power of the parent firm to select technology for its subsidiary and fix its price is connected with the fact that basic research and the technological development of production are concentrated in the parent firm, and the subsidiaries are only entrusted with residual activities in this field.

Aspects relating to national economic autonomy. Foreign investment poses a problem in the sphere of development policy, because of the limitations imposed by international enterprises on the economic independence of the developing countries. These limitations manifest themselves both at the macroeconomic level, in national economic strategies and projects, and at the microeconomic level in local entrepreneurial activities.

At the national level, the foreign take-over of the national decision-making centres is demonstrated by the fact that, in many countries of the region, substantial sections of the dynamic or strategic industries, as well as of the extractive and services industries, are in the hands of foreign private capital. Thus, for instance, the share of United States manufacturing subsidiaries in Latin America in the total sales of chemicals, paper, rubber, metal products and machinery was 69 per cent in 1965, while in 1963 the same sectors of production generated 43 per cent of the total value added in the industrial product of the region 13/. Particularly in countries where international enterprises have a large share in the economic activities, it appears certain that decisions on investment, technology, marketing and exports are adopted outside the country, where the subsidiaries are located and are designed to serve the overall private interests of the foreign enterprises.

It is in this way that key substantive and financial decisions of vital importance for the development and advancement of the economies of the developing countries are taken in the light of the international policy of foreign enterprises, the interests of the economies of the developing countries being relegated to the background when conflicts of aims or interests arise.

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13/ See ECLA, The expansion of industrial enterprises..., op.cit., table 31.

/Moreover, the

Moreover, the national entrepreneur is generally in an extremely weak position from the point of view of competing with private foreign investment. This is due to the large scale - and frequently monopolistic position - of the foreign enterprises with regard to financial and technological resources, sales volume and capacity, and other technical and economic factors.

Brief mention should also be made of another aspect that is particularly harmful to the development of local enterprises in the countries of the region. This is the purchase of existing local enterprises by foreign enterprises. This type of foreign take-over, which generally does not bring any new external contributions to the national economy, is normally carried out with capital created or tapped locally. In some countries the point has been reached where most new foreign investment takes the form of buying out already established enterprises or setting up new branches of existing subsidiaries.

(b) Some remarks on foreign investment policy

These problems, together with others that have not been considered in the preceding pages, are a matter of increasing concern in Latin America, and in recent years various countries have begun to take steps to establish policies or specific controls. In this connexion, mention should be made of the statute on investment of foreign capital established under the Andean Subregional Integration Agreement.

As far as the general and rather limited aspects considered in this report are concerned, the following conclusions may be drawn:

(i) In order to avoid the progressive foreign take-over of national economies and at the same time to establish sufficiently clear standards for the potential foreign investor, it will be essential for the countries to decide which fields are appropriate for foreign investment (either because of the inflow of funds involved or because such investment brings with it know-how and other elements that cannot, for the time being, be provided by national initiative). Among the practical institutional solutions to this problem, joint enterprises - i.e., the combination of private foreign investment and know-how with that of local public or private enterprises - are particularly worthy of attention. In many cases, too, straightforward private foreign investment can usefully be replaced by a procedure whereby new investment is carried out by national enterprises, which contract external loans and acquire temporary assistance and technical know-how from foreign enterprises.

/(ii) Private

(ii) Private foreign investment should effectively contribute to narrowing rather than widening or perpetuating the so-called "technology gap" between the developing and industrialized countries, and should do so without prejudice to the important role to be played by other forms of transfer of technology. It will, therefore, be necessary to seek appropriate formulas for the effective transfer of technology, both as regards total mastery of the technology by the recipient country (including the development of research in the developing countries and the training of technical and administrative staff) and as regards fair compensation for that technology.

(iii) In reaffirming the principle embodied in the International Development Strategy that policies for speeding up economic and social progress are in the responsibility of the developing countries themselves, it is made clear that the decision-making centres for questions of national importance must be located in the developing countries and not outside them. The application of this principle presupposes the subordination of foreign enterprises to the policies, objectives and goals fixed by the governments of the developing countries.

(iv) In view of the serious balance-of-payments problems, a more thorough analysis will have to be made - in the context of national plans - of the most effective ways in which direct foreign investment could contribute to the solution of these problems. Profit levels and withdrawals of profits on foreign investment should be subject to certain predetermined and permanent limitations, in order to establish an acceptable community of interests between investors and the recipient countries.

(v) This analysis should also, as is only natural, cover other economic, social and political aspects which have been shown up in this study and which are inherent in the nature and objectives of the development strategy of the Latin American countries. Specially important among these aspects are the effects of private foreign investment on employment and income distribution, and the transfer, incorporation and assimilation of technological progress.



4. Special aspects of development finance

(a) Establishment of a link between the allocation of special drawing rights and the provision of additional development finance to developing countries

For several years the developing countries have been proposing the establishment of a link between the allocation of Special Drawing Rights (SDR) and the provision of additional development finance to developing countries 14/; this proposal is reiterated in the Action Programme of Lima. Among other reasons for this proposal is the fact that it is considered that the declared intention of the developed countries to increase the volume of their development aid could be put into effect more easily and rapidly if advantage were taken of the opportunity offered by the SDR system to provide the developing countries, by means of such a link, with additional development funds. The International Development Strategy (paragraph 52) states that "serious consideration will be given to the possibility of the establishment of a link" and adds that "the question will, in any case, be examined before the allocation of Special Drawing Rights in 1972".

The arguments that have been put forward in favour of the establishment of the link are well known. This machinery not only opens up new horizons for additional development financing but also makes it possible to overcome, at least in part, some of the objections that the developing nations have been making against the system of distribution of SDR, which is based on the individual country quotas in the IMF. It should be pointed out, in this connexion, that this system of distribution is based on a conventional pattern of proportionality which, in the final analysis, amounts to giving more of these new monetary units to many countries which probably need them less and vice versa. Nevertheless, it should be made clear that the establishment of a link cannot be considered as an alternative to changing the present system of distribution of SDR. Both objectives should be pursued simultaneously because they have different purposes as regards the financing of the system 15/.

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14/ In this connexion, see Official Records of the Trade and Development Board, Tenth Session, Annex III, Supplement N°4 (TD/B/318), and also the report by the UNCTAD secretariat, International monetary issues (TD/B/356).

15/ See chapter XII on the present international monetary situation and the reform of the international monetary system.

/The great

The great urgency - recognised in the International Development Strategy - attached to obtaining swift approval for the establishment of the link by the international community is due to a number of factors. First, discussions are to be held in the course of 1972 concerning the creation of new SDR, for distribution from 1973 onwards. Secondly, even if the principle of the link is approved at the third session of UNCTAD, there will most likely be a fairly long lapse of time before the machinery begins to function, because although different operational procedures have already been studied, it will be necessary to decide between several possible alternatives, draw up the relevant provisions and obtain the agreement of governments regarding the specific solutions that are proposed. Thirdly, the recent events that are leading to a rearrangement of the international monetary system accentuate the urgent need for approval of this proposal, for it is likely that there will be an increase in the importance of SDR as a basic unit of the international monetary system and a consequent decline in that of the dollar. In this framework, it will be possible to set about building up a new world financial policy, which should make due provision for the operation of the link machinery.

How important the link may become in development financing will depend on several factors. Specially important factors in this connexion will be, on the one hand, the role assigned to SDR in the creation of new international liquidity; obviously, the greater this is, the greater will be the supply of SDR that could be subject to the link. Secondly, the arrangements adopted for the distribution of SDR among countries and their entry into circulation will be of fundamental importance. Thus, the greater the potential and actual access to new SDR of developed countries with more or less permanent balance-of-payments deficits, the smaller the proportion of such SDR that will be available for development financing in the developing countries 16/.

The great importance of the establishment of the link for the developing countries should in no way affect the efforts they deploy to achieve the objective of receiving at least 1 per cent of the gross domestic product of the industrialized countries as development assistance, with at least 10 per cent of that assistance in the form of official aid. This is so because, on the one hand, these are distinct albeit interdependent objectives which, on the other hand, as was indicated earlier, the additional resources eventually obtained by the developing countries through the operation of this machinery will most likely be considerably less than would result from the achievement of the goal of 1 per cent and, in particular, that of 0.7 per cent in the form of official aid.

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16/ See the remarks in this connexion in chapter XII.

An additional aspect that will have to be considered in the operation of the link will be the institutional arrangements for channelling the SDR subject to the link and the effects that these arrangements will have. Various alternatives have been put forward in this connexion, and although some of them provide for these resources to be channelled to multilateral credit institutions, it seems logical that formulas should be worked out to secure the fairly balanced distribution of the new funds available among the different developing countries.

(b) Supplementary financial measures

Since its first session UNCTAD has recommended the establishment of financial machinery to supplement that designed to mitigate short-term shortfalls in the export income of the developing countries. This recommendation was in response to the need for arrangements to solve the financial problems that face a country's development programme when, due to unforeseen factors, export income falls below the level provided for in the plans. Obviously, such a drop in income can disrupt the execution of well-designed plans and lead to the abandonment of investment which has already been begun, with consequent adverse effects.

The proposals drawn up by the World Bank in response to recommendation A.IV.18 of the first session of UNCTAD were examined by an intergovernmental group, which failed to reach agreement on the principles and methods of operation of the system. Resolution 30 (II) of UNCTAD II, therefore, reaffirmed the objectives of the proposals for supplementary financial measures and instructed the intergovernmental group to continue examining the proposals. The course the discussions subsequently took is reflected in Resolution 60 (IX) of the Trade and Development Board, which approved a set of conclusions to serve as a basis for the preparation of discretionary supplementary financial measures and again invited the World Bank to work out the arrangements and the methods of applying them. Meanwhile, the consultations carried out by the World Bank led to the conclusion that the developed countries would at best give only very limited support to the idea of contributing funds for supplementary financial measures, at least during the period of the Third Replenishment of the International Development Association. In the circumstances, the World Bank decided to postpone a more thorough examination of the proposals for supplementary financing. This decision, which was adopted for the first time in September 1970, was ratified in a communication dated 4 May 1971 from the President of the World Bank to the Secretary-General of UNCTAD 17/, despite the fact that in the International

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17/ See document TD/B/353 of 21 May 1971.

Development Strategy (paragraph 51) "the Bank is invited to give further consideration to the adoption of supplementary financial measures at the earliest practicable opportunity".

The position taken by the World Bank faces the developing countries with a problem that should be examined at the third session of UNCTAD, for if they accept the Bank's decision, then the study and preparation of new proposals for supplementary financial measures will be postponed indefinitely, whereas if they consider that they should persist in their efforts to establish discretionary supplementary financial measures, in accordance with the principle reiterated in the Action Programme of Lima, the relevant decisions will have to be taken and the Inter-governmental Group UNCTAD will have to be instructed to continue examining possible bases for such a scheme.

(c) Compensatory financing

In the Action Programme of Lima it is reaffirmed that "the IMF should give serious consideration to the suggestions of the developing countries contained in decision 31 (II) of UNCTAD II for the liberalization of the compensatory financing facility" (section D (d), paragraph xxii). Moreover, the Charter of Algiers contained proposals that drawings on the International Monetary Fund under the compensatory financing facility should be permitted up to 50 per cent of the countries' quotas in the Fund without being subject to any specific conditions; that the formula for calculating shortfalls should be modified, and that due consideration should be given to refinancing debts incurred during periods of persistent shortfalls in export earnings, including a revision of current repurchase time limits.

It should be recalled that in 1966 IMF made some modifications to the facility, in response to recommendation A.IV.17 of UNCTAD. This fact was noted with satisfaction at the second session of UNCTAD. In view of the readiness that IMF has shown to continue improving the operation of the system, it may be assumed that, in accordance with any resolutions on the matter adopted at the third session of UNCTAD, it will also be in a position to continue adapting the operation of the facility so as to provide more effective assistance in the development of the developing countries.

In section D (d), paragraph (xxii) of the Action Programme of Lima, already referred to above, it is pointed out that "In addition, the compensatory financing facilities should be extended so as to enable developing countries to offset shortfalls in export earnings from groups of commodities or individual commodities". A formula such as the one proposed would obviously

/be extremely

be extremely useful. Nevertheless, it should be noted that it would be advisable to co-ordinate this proposal with the proposals that have been put forward with regard to the introduction of a system of supplementary financial measures by the World Bank.

The Action Programme of Lima raised another question in the sphere of compensatory financing with its proposal that "the IMF should create a special facility designed specifically to cover deficits resulting from the implementation of measures intended to liberalize trade among developing countries, providing that the drawing rights under this facility for this special purpose would be distinct from the ordinary drawing rights" (section D (d), paragraph (xx)).

Approval of this principle and its practical application should be encouraged at the third session of UNCTAD, in view of the dynamic expansion which systems of economic integration are undergoing among the developing countries.

5. The problem of indebtedness and the outflow of financial resources from developing countries 18/

(a) Managing the external debt

Paragraph 48 of the International Development Strategy states that:

"Arrangements for forecasting, and if possible, forestalling debt crises will be improved. Developed countries will help in preventing such crises by providing assistance on appropriate terms and conditions, and developing countries by undertaking sound policies of debt management. Where difficulties do arise, the countries concerned will stand ready to deal reasonably with them within the framework of an appropriate forum in co-operation with the international institutions concerned, drawing upon the full range of the available methods including, as may be required, measures such as arrangements for rescheduling and refinancing of existing debts on appropriate terms and conditions".

The Action Programme of Lima states in section D (f), paragraphs (xxiv) and (xxvii), that:

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18/ On this item see UNCTAD secretariat documents The flow of financial resources (TD/B/C.3/97) and Liberalization of terms and conditions of assistance (TD/B/C.3/96).

<sup>19</sup>The criteria

"The criteria and procedures of rescheduling of external debts of developing countries, particularly those with serious debt servicing problems, should be reviewed and revised so as to ensure that the rescheduling of debts does not interfere with the orderly process of development planning in debtor countries and should be systematically designed to prevent both disruption of long-term development plans and the need for repeated rescheduling. Where the indebtedness problems reflect structural imbalance, grace periods, interest rates and maturity periods in respect of rescheduled debts should be the same as those considered appropriate for basic development finance. Loan agreements should invariably contain a clause for postponement of debt repayments in situations of serious balance-of-payments difficulties such as those brought about either by an unexpected severe fall in exports or an unexpected increase in imports".

"A special body should be created within the machinery of UNCTAD to find practical solutions to the debt servicing problems of developing countries. Consultations should be held within such a body between representatives of debtor and creditor countries and international experts serving in their personal capacity".

The stress placed on this issue in the International Development Strategy and the Lima Action Programme is fully justified, for the outflow of financial resources from developing countries under the heading of debt servicing has gradually become one of the most explosive problems facing the developing nations. It should be noted that one of the fundamental causes for the deterioration of the situation has been retrogression in the fulfilment of the target that the developed countries should provide 0.7 per cent of their GNP in the form of official assistance on the terms and at the interest rates described earlier in this paper.

The growth in the debt servicing burden of the developing countries can be illustrated by two specific manifestations of its impact. Table 9 shows that between 1965 and 1969, although total disbursements rose from 8,774 to 10,153 million dollars, the net transfer of resources to the developing world fell from 5,358 to 5,185 million dollars owing to the increase in external public debt service from 3,416 to 4,968 million dollars (interest payments grew by 61 per cent, and amortization payments by slightly over 45 per cent).

/Table 9

Table 9  
INFLUENCE OF EXTERNAL RESOURCES AND OUTFLOWS IN RESPECT OF SERVICE PAYMENTS  
ON EXTERNAL PUBLIC DEBT, 1965-1969

(In millions of dollars)

| Area/year                      | Disbursements |   |          | Debt service        |                    |         | Net flow<br>b/      | Net<br>transfers<br>c/ |
|--------------------------------|---------------|---|----------|---------------------|--------------------|---------|---------------------|------------------------|
|                                | Loans         | Grants and<br>grant-like<br>contributions<br>a/ | Total    | Amorti-<br>zation   | Interest           | Total   |                     |                        |
| <u>Africa</u>                  |               |   |          |                     |                    |         |                     |                        |
| 1965                           | 1 078.5       | 861.7   | 1 940.2  | 303.6               | 163.9              | 467.5   | 1 636.6             | 1 472.7                |
| 1966                           | 877.0         | 731.9   | 1 608.9  | 313.0               | 166.7              | 479.7   | 1 295.9             | 1 129.2                |
| 1967                           | 984.1         | 685.1   | 1 669.2  | 293.3               | 182.7              | 476.0   | 1 375.9             | 1 193.2                |
| 1968                           | 789.9         | 715.1   | 1 505.0  | 412.0               | 188.9              | 600.9   | 1 093.0             | 904.1                  |
| 1969                           | 800.1         | 739.6   | 1 539.7  | 521.3               | 203.5              | 724.8   | 1 018.4             | 814.9                  |
| <u>East Asia d/</u>            |               |   |          |                     |                    |         |                     |                        |
| 1965                           | 509.1         | 363.4   | 872.5    | 163.5 <sup>e/</sup> | 30.1 <sup>e/</sup> | 193.6   | 709.0 <sup>e/</sup> | 678.9                  |
| 1966                           | 437.1         | 308.1   | 745.2    | 186.4 <sup>e/</sup> | 39.1 <sup>e/</sup> | 225.5   | 558.8 <sup>e/</sup> | 519.7                  |
| 1967                           | 814.6         | 398.7   | 1 213.3  | 205.6               | 54.1               | 259.7   | 1 007.7             | 953.6                  |
| 1968                           | 1 033.0       | 425.2   | 1 458.2  | 205.2               | 79.1               | 284.4   | 1 253.0             | 1 173.9                |
| 1969                           | 1 201.5       | 366.1   | 1 567.6  | 318.6               | 117.6              | 436.2   | 1 249.0             | 1 131.4                |
| <u>Middle East</u>             |               |   |          |                     |                    |         |                     |                        |
| 1965                           | 402.7         | 194.2   | 596.9    | 204.9               | 42.3               | 247.2   | 392.0               | 349.7                  |
| 1966                           | 442.7         | 121.5   | 564.2    | 228.6               | 49.5               | 278.1   | 335.6               | 286.1                  |
| 1967                           | 683.7         | 77.8  | 761.5    | 179.3               | 61.7               | 241.0   | 520.2               | 520.5                  |
| 1968                           | 981.1         | 64.7  | 1 045.8  | 277.3               | 86.6               | 363.8   | 768.5               | 681.9                  |
| 1969                           | 774.2         | 63.2  | 837.4    | 366.9               | 108.2              | 475.1   | 470.5               | 362.3                  |
| <u>South Asia f/</u>           |               |   |          |                     |                    |         |                     |                        |
| 1965                           | 1 347.0       | 827.3   | 2 174.3  | 199.5               | 147.1              | 346.6   | 1 974.8             | 1 827.7                |
| 1966                           | 1 226.7       | 859.9   | 2 086.6  | 249.3               | 178.6              | 427.8   | 1 837.3             | 1 658.7                |
| 1967                           | 1 574.5       | 774.9   | 2 349.4  | 306.5               | 204.5              | 511.0   | 2 042.9             | 1 838.4                |
| 1968                           | 1 511.5       | 520.0   | 2 031.5  | 330.5               | 211.5              | 542.0   | 1 701.0             | 1 489.5                |
| 1969                           | 1 418.0       | 338.6   | 1 756.6  | 377.2               | 240.5              | 617.6   | 1 379.4             | 1 138.9                |
| <u>Southern Europe g/</u>      |               |   |          |                     |                    |         |                     |                        |
| 1965                           | 607.0         | 61.4  | 668.4    | 346.9               | 92.2               | 439.1   | 321.5               | 229.3                  |
| 1966                           | 759.2         | 46.1  | 805.3    | 336.2               | 105.4              | 441.7   | 469.1               | 363.7                  |
| 1967                           | 738.2         | 34.6  | 792.8    | 324.4               | 115.4              | 439.8   | 468.4               | 353.0                  |
| 1968                           | 868.6         | 41.8  | 910.4    | 355.2               | 141.7              | 496.9   | 555.2               | 413.5                  |
| 1969                           | 945.6         | 19.5  | 965.1    | 359.0               | 173.0              | 531.9   | 606.1               | 433.1                  |
| <u>Western Hemisphere h/</u>   |               |   |          |                     |                    |         |                     |                        |
| 1965                           | 2 121.5       | 399.8   | 2 521.3  | 1 300.4             | 421.0              | 1 721.4 | 1 220.9             | 799.9                  |
| 1966                           | 2 152.8       | 392.2   | 2 545.0  | 1 482.4             | 452.0              | 1 934.4 | 1 062.6             | 610.6                  |
| 1967                           | 2 617.6       | 384.3   | 3 001.9  | 1 541.7             | 508.4              | 2 050.1 | 1 460.2             | 951.8                  |
| 1968                           | 2 954.2       | 418.4   | 3 372.6  | 1 688.7             | 550.8              | 2 239.5 | 1 683.9             | 1 133.1                |
| 1969                           | 3 011.9       | 475.1   | 3 487.0  | 1 583.1             | 599.4              | 2 182.5 | 1 903.9             | 1 304.5                |
| <u>80 developing countries</u> |               |   |          |                     |                    |         |                     |                        |
| 1965                           | 6 065.9       | 2 707.8   | 8 773.6  | 2 518.8             | 896.6              | 3 415.4 | 6 254.8             | 5 358.2                |
| 1966                           | 5 895.5       | 2 459.7   | 8 355.2  | 2 795.9             | 991.3              | 3 787.2 | 5 559.3             | 4 568.0                |
| 1967                           | 7 432.7       | 2 355.4   | 9 788.1  | 2 850.8             | 1 126.8            | 3 977.6 | 6 937.3             | 5 810.5                |
| 1968                           | 8 138.3       | 2 185.2   | 10 323.5 | 3 268.9             | 1 258.6            | 4 527.5 | 7 054.6             | 5 796.0                |
| 1969                           | 8 151.3       | 2 002.1   | 10 153.4 | 3 526.1             | 1 442.3            | 4 968.4 | 6 627.3             | 5 185.0                |

Source: World Bank, Annual Report, 1971, Table 9.

a/ Grants consist of grant and grant-like contributions by DAC countries and grants by multilateral agencies as compiled by OECD as well as disbursements by Inter-American Development Bank on loans repayable in recipients' currencies.

b/ Disbursements on loans, grants and grant-like loans minus amortization on loans.

c/ Net flow minus interest on loans.

d/ Does not include most of the publicly-guaranteed private debt of Philippines.

e/ Interest for Indonesia included in amortization. Therefore net flow in this year is understated.

f/ Excludes suppliers' credits to India for which a complete series of data is not available for 1965-1968. For 1969, transactions on these credits were as follows: disbursements 89.2 million, amortization 64 million, interest 22.9 million dollars.

g/ Does not include the non-guaranteed debt of the "social sector" of Yugoslavia contracted after March 31, 1966.

h/ Service payments for Brazil include some non-guaranteed debt of the private sector to suppliers.

/Secondly, over

Secondly, over the past ten years there have been twenty-two cases (involving ten countries) of debt renegotiation, to say nothing of a number of countries where debt servicing difficulties were solved without rescheduling, although this is not to say that there were no adverse effects on their economic and social development.

Turning to the distribution of indebtedness by regions, a number of interesting conclusions can be drawn. Table 10 shows that at the end of 1969 Latin America accounted for the highest proportion of outstanding external public debt, even though this proportion fell sharply between 1964 and 1969, while East Asia, South Asia and the Middle East increased their proportions. The figures for Africa and Southern Europe remained virtually unchanged over the same period.

The difference in the terms under which indebtedness is contracted in the various developing regions is reflected in the ratio between the total debt and debt service, both expressed as proportions of the total for the developing world. At the end of 1969, Latin America accounted for 29.7 per cent of the outstanding debt but paid 43.9 per cent of the debt service, while in East and especially South Asia the situation was the reverse. In other regions, the two variables were roughly in balance (see table 10).

It is clear from this that Latin America's external debt has been contracted on generally unfavourable terms, and this is why the region has to face such a heavy burden of debt service.

Not only has Latin America contracted its external debt on unfavourable terms, but also, as noted earlier, during the period 1965-1969 it contracted debts and paid debt service on relatively hard terms (see again table 5), owing to the fact that it was not able to gain increased access to credit on more favourable terms, such as official credit, or virtually free forms of credit, such as official grants. Hence, it had to make great use of private credit and loans, which are granted for short periods and at high interest rates. Proof of this can be found in the UNCTAD secretariat document referred to earlier, which shows that at the end of 1969 close to 38 per cent of Latin America's public external debt came from private sources and this 38 per cent will account for 52 per cent of the region's total debt service during the period 1970-1975 <sup>19/</sup>.

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<sup>19/</sup> See UNCTAD, *op.cit.*, TD/B/C.3/96, Annex, table 1.



Table 10

THE EXTERNAL PUBLIC DEBT AND DEBT SERVICE PAYMENTS, 1961-1969

(Millions of dollars)

|                    |      | Public<br>debt <u>a/</u> | Percentage<br>of<br>total | Public debt<br>service<br>payments | Percentage<br>of<br>total |
|--------------------|------|--------------------------|---------------------------|------------------------------------|---------------------------|
| Africa             | 1961 | 3 309                    | 15.4                      | 172                                | 7.4                       |
|                    | 1965 | 6 297                    | 16.8                      | 468                                | 13.7                      |
|                    | 1969 | 9 184                    | 15.5                      | 725                                | 14.5                      |
| East Asia          | 1961 | 2 176                    | 10.0                      | 224                                | 9.6                       |
|                    | 1965 | 3 903                    | 10.4                      | 194                                | 5.7                       |
|                    | 1969 | 7 609                    | 12.8                      | 435                                | 8.7                       |
| Middle East        | 1961 | 1 419                    | 6.5                       | 170                                | 7.3                       |
|                    | 1965 | 2 307                    | 6.1                       | 247                                | 7.2                       |
|                    | 1969 | 4 883                    | 8.2                       | 475                                | 9.5                       |
| South Asia         | 1961 | 3 600                    | 16.6                      | 246                                | 10.6                      |
|                    | 1965 | 9 015                    | 24.0                      | 347                                | 10.1                      |
|                    | 1969 | 13 809                   | 23.3                      | 618                                | 12.4                      |
| Southern Europe    | 1961 | 2 261                    | 10.4                      | 252                                | 10.8                      |
|                    | 1965 | 4 104                    | 10.9                      | 439                                | 12.9                      |
|                    | 1969 | 6 228                    | 10.5                      | 532                                | 10.7                      |
| Western Hemisphere | 1961 | 8 822                    | 40.8                      | 1 250                              | 54.0                      |
|                    | 1965 | 11 905                   | 31.7                      | 1 721                              | 50.4                      |
|                    | 1969 | 17 618                   | 29.7                      | 2 183                              | 43.9                      |
| <u>Total</u>       | 1961 | 21 587                   | 100.0                     | 2 314                              | 100.0                     |
|                    | 1965 | 37 532                   | 100.0                     | 3 416                              | 100.0                     |
|                    | 1969 | 59 331                   | 100.0                     | 4 968                              | 100.0                     |

Source: UNCTAD, op.cit., TD/B/C.3/96, table 2.

a/ As of 31 December, including sums not yet disbursed.

/Another characteristic

Another characteristic feature of the ratio of debt service to the external public debt in Latin America is that the situation varies a great deal from country to country. These variations can be measured in terms of a number of indices (for example, population, per capita income, exports, etc.) each of which will show up different trends.

(b) The outflow of financial resources

If trends are examined over a relatively long period, namely 1950-1969 (see table 11), certain striking features show up which complement what has been said above. As regards the trend of loans, for example, between 1950-1954 and 1965-1969 gross disbursements increased less than five-fold, while because of the debt spiral effect repayments increased 5.5 times and interest paid more than 8 times. This meant that the net inflow of loans increased by a factor of only 2.5 between the two periods, and between 1960-1964 and 1965-1969 it actually decreased.

The net balance of direct foreign investment has in practice consistently been a negative quantity. During the period 1950-1969, for every dollar that entered, two left in the form of depreciation and profits, and while official grants have increased, they have still not reached any appreciable level within the overall inflow of foreign resources.

The net result of this twenty year period was that the overall net contribution of foreign capital to external financing was an outflow of approximately 500 million dollars.

Furthermore, the burden of total external debt service has been absorbing a growing proportion of export income (see table 12). The ratio of total disbursements (amortization, depreciation, interest and profits) to exports from the region doubled over the period in question, rising from 18.5 per cent in 1950-1954 to 37 per cent in 1965-1969. Although at the beginning of the 1950s payments in respect of profits and depreciation on direct investment accounted for the largest share of the outflow, they grew relatively little in subsequent years (from 11 to 13 per cent), while the share of external debt service tripled, rising from 7 per cent in 1950-1954 to close to 24 per cent in 1965-1969.

In addition, between 1950 and 1969, income from exports of goods and services grew at an average annual rate of 3.9 per cent, while total service payments on foreign capital grew at an average annual rate of 8.9 per cent, made up of an increase of 5.1 per cent in servicing direct investments and 12.5 per cent in servicing in external debt.

Table 11

LATIN AMERICA: CUMULATIVE INFLOW OF FOREIGN RESOURCES BY FIVE-YEAR PERIODS  
AND TOTAL NET CONTRIBUTION TO EXTERNAL FINANCING

(Millions of dollars)

|           | External loans used and corresponding service payments |                      |         |                       | Direct foreign investment and corresponding service payments |                           |                   |         |         | Total net contribution                           |                    |                       |
|-----------|--|----------------------|---------|-----------------------|--|---------------------------|-------------------|---------|---------|--|--------------------|-----------------------|
|           | Dis-<br>burse-<br>ment                                 | Re-<br>pay-<br>ments | Balance | Inter-<br>est<br>paid | Net con-<br>tribution<br>of loans                            | Direct<br>invest-<br>ment | Depre-<br>ciation | Balance | Profits | Net con-<br>tribution<br>of direct<br>investment | Official<br>grants | of foreign<br>capital |
| 1950-1954 | 4 028.5  | 2 289.9              | 1 738.6 | 436.9                 | 1 301.7  | 1 826.6                   | 272.7             | 1 553.9 | 3 981.8 | -2 427.9   | 110.4              | -1 015.8              |
| 1955-1959 | 8 141.2  | 5 256.2              | 2 885.0 | 823.8                 | 2 061.2  | 4 062.2                   | 270.6             | 3 791.6 | 5 306.4 | -1 514.8   | 452.0              | 998.4                 |
| 1960-1964 | 15 139.3   | 9 046.1              | 6 087.2 | 1 800.6               | 4 286.6  | 2 303.6                   | 886.7             | 1 416.9 | 5 513.7 | -4 096.8   | 642.3              | 832.1                 |
| 1965-1969 | 19 267.7   | 12 476.0             | 6 791.7 | 3 565.6               | 3 226.1  | 3 628.3                   | 871.6             | 2 756.7 | 8 021.5 | -5 264.8   | 696.6              | -1 342.1              |

Source: ECLA, on the basis of official statistics.

Table 12  
LATIN AMERICA: CUMULATIVE SERVICE PAYMENTS ON FOREIGN  
CAPITAL, BY FIVE-YEAR PERIODS

(Millions of dollars)

| Period    | External debt service |               |          | Direct foreign investment |                   |         | Total<br>service<br>payments<br>on<br>foreign<br>capital |
|-----------|-----------------------|---------------|----------|---------------------------|-------------------|---------|--|
|           | Amorti-<br>zation     | Inter-<br>est | Total    | Profits                   | Depre-<br>ciation | Total   |  |
| 1950-1954 | 2 289.9               | 436.9         | 2 726.8  | 3 981.8                   | 272.7             | 4 254.5 | 6 981.3  |
| 1955-1959 | 5 256.2               | 823.8         | 6 080.0  | 5 306.4                   | 270.6             | 5 577.0 | 11 657.0   |
| 1960-1964 | 9 046.1               | 1 800.6       | 10 846.7 | 5 513.7                   | 886.7             | 6 400.4 | 17 247.1   |
| 1965-1969 | 12 476.0              | 3 565.6       | 16 041.6 | 8 021.5                   | 871.6             | 8 893.1 | 24 934.7   |

Service payments on foreign capital as a percentage  
of exports of goods and services

|           |      |     |      |      |     |      |      |
|-----------|------|-----|------|------|-----|------|------|
| 1950-1954 | 6.1  | 1.1 | 7.2  | 10.6 | 0.7 | 11.3 | 18.5 |
| 1955-1959 | 11.6 | 1.8 | 13.4 | 11.7 | 0.6 | 12.3 | 25.7 |
| 1960-1964 | 17.6 | 3.5 | 21.1 | 10.8 | 1.7 | 12.5 | 33.6 |
| 1965-1969 | 18.5 | 5.3 | 23.8 | 11.9 | 1.3 | 13.2 | 37.0 |

Source: ECLA, on the basis of official statistics.

/(c) Possible

(c) Possible solutions for the problem of the external debt

The above information gives an idea of how serious the problem of external indebtedness and the corresponding outflow of resources is for the developing world and Latin America in particular, to say nothing of the direct adverse effects on the balance-of-payments caused by the net outflow of resources corresponding to direct foreign investment. It is thus abundantly clear that it is urgently necessary to implement the policy measures proposed in the International Development Strategy and the Lima Action Programme, which were discussed above.

It would seem appropriate to stress once again that a vital factor in tackling the external debt problem during the 1970s will be the volume and terms of official development assistance. Accordingly, the Pearson Commission's recommendations in this respect should be given careful consideration, namely that:

- "1. Debt relief operations should avoid the need for repeated reschedulings and seek to re-establish a realistic basis for development finance.
2. When it is necessary to set limits on new export credits, equal attention should be given, where there is a sound development programme, to the possible need for concessional external assistance.
3. Aid-giving countries should consider debt relief a legitimate form of aid and permit the use of new loans to refinance debt payments, in order to reduce the need for full-scale debt negotiations.
4. The terms of all official development assistance loans should henceforth provide for interest of no more than 2 per cent, a maturity of between 25 and 40 years, and a grace period of 7 to 10 years."

Furthermore, it is very important to secure acceptance of the principle that borrower countries may postpone debt service payments in times of balance-of-payments difficulties. This provision, known as a "bisque clause", should be universally accepted and should be incorporated in loan agreements between the developing and the industrialized countries.

/As regards

As regards the weight of supplier credits in the external debt structure of the developing countries, the Lima Action Programme notes that export credits should be granted "according to criteria compatible with the objectives of planned development" and that the developed countries "should accept the principle of assuming the responsibility for supplier credits from companies registered in their territories and spread the repayment in easy terms, whenever necessary, in order to reduce the adverse effect of such credits on the balance-of-payments of developing countries". It goes without saying that the implementation of these principles is of particular importance to Latin America, in view of the high proportion of supplier credits in its external debt.

#### 6. Other aspects of development financing

##### (a) Problems of mobilization of internal resources of developing countries

The International Development Strategy, in paragraph 41, identifies certain measures that the developing nations should take for a fuller mobilization of the whole range of their domestic resources, while the Lima Action Programme (section D (e), paragraph (xxiii)) states that:

"The developed countries should refrain from taking any steps which may interfere, either directly or indirectly, with the full and efficient mobilization of the domestic resources, both land and marine, of developing countries. There must not be any external interference in the programmes and priorities of the developing countries designed to achieve such mobilization".

Both these pronouncements, which view the issue from different standpoints, are of deep significance, and it is therefore important that the principles they contain should be fully accepted and that specific standards should be set up for their practical achievement.

##### (b) Disarmament and development financing

General Assembly Resolution 2685 (XXV) on the "Economic and social consequences of disarmament" discusses the principle of "establishing the link between the Disarmament Decade and the Second United Nations Development Decade so that an appropriate portion of the resources that are released as a consequence of progress towards general and complete disarmament would be used to increase assistance for the economic and social development of developing countries".

/In this

In this connexion, it has been estimated 20/ that world military expenditure in 1969 totalled some 200,000 million dollars. The NATO countries were responsible for more than half of this figure, and the Warsaw Pact members for approximately one-third. To show the scale of these figures, it may be noted that the military expenditure of the developed countries was at least ten times greater than their total (public and private) financial assistance to the developing nations, and twenty times greater than their official financial assistance.

The great Powers are considering the possibility of taking joint action with a view to substantially reducing the amount of funds allocated to military expenditure. It has therefore been proposed that the developed countries - both the market-economy and the socialist countries - should devote a significant portion of the resources thus released to increasing their official assistance to the developing countries.

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20/ United States Arms Control and Disarmament Agency, Annual Report, 1969.





Chapter XII

THE PRESENT INTERNATIONAL MONETARY SITUATION AND THE  
REFORM OF THE INTERNATIONAL MONETARY SYSTEM 1/

1. The evolution of the international monetary system  
and the background to the crisis

President Nixon's announcement in his address of 15 August 1971 that it had been decided temporarily to suspend the convertibility of the dollar into gold or other reserve assets meant the formal elimination of a basic feature of the international monetary system which was not operating effectively in practice. Nevertheless, this measure, adopted jointly with the 10 per cent import surcharge, forced the international community to seek a substantial reform of the monetary system which has long been going through a crisis. This reform started with the change in the dollar price of gold and the currency realignments agreed on by the Group of Ten on 18 December 1971, but although these changes are highly significant, there is still a long way to go before the reform of the system is completed.

The fundamental purpose of the international economic framework established at the end of the Second World War was to encourage a progressive movement towards a multilateral system of trade and payments which would lead to the expansion and liberalization of world trade, especially trade between developed countries. In fact, the monetary system established was unable to take into account the special problems of developing countries, which were included on the basis that they would be governed by the same body of rules as that formulated for the industrialized countries.

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1/ See UNCTAD, International monetary issues (TD/B/C.3/98), and the documents presented by ECLA at the twelfth meeting of CECLA, Las probables renercusiones sobre América Latina de la nueva política económica de los Estados Unidos (E/CN.12/L.67).

It is useful to recall that the system which has operated for over a quarter of a century and is still in force was essentially based on the general acceptance of the dollar as the world monetary unit, for both the payment of commercial transactions and the building up of international reserves. The result was that the United States became, to a large extent, a kind of central bank for the system, although in theory this was the IMF's role. In view of this dollar-standard feature of the world monetary system, the promotion of the expansion of international liquidity was largely influenced by the rate of growth of the amount of dollars in circulation, particularly since the growth capacity of other forms of reserves (gold, SDRs and IMF position) was limited. The increase in gold stocks was geared to the slow rate of world production of gold, with the added disincentive of a fixed price in dollars; SDRs came into operation in limited amounts only in 1970; and the IMF position was of little relative importance.

As a result of the situation described above, the expansion of international liquidity has been dependent in the last few years on continuous deficits in the United States balance of payments and on the acceptance and promotion by developed countries with balance-of-payments surpluses of an increasingly rapid growth of their dollar reserves, although they knew that this was undermining the stability of the value of the dollar and its guarantee of convertibility. In general, the countries with surpluses accepted this trend because it enabled them to step up exports and in this way acted as a spur to their economic growth. This policy had a highly undesirable effect, however, in that it led to the progressive take-over of many European and Japanese manufacturing enterprises, wholly or in part, by United States companies.

What the European countries and Japan were seeking through this mode of operation of the financial side of the world economy was to increase their participation in international trade, partly to recover lost ground and partly to improve their position. They were successful in achieving this objective and at the same time managed to accumulate large international reserves. It seems clear, however, that these nations - particularly some of them - went too far with their policy of achieving balance of payments

/surpluses and

surpluses and building up increasing international reserves, for in their eagerness to accelerate their economic growth and to ensure full employment, they were somewhat over-reluctant to liberalize imports, to establish regulations limiting the foreign take-over of enterprises, to increase external aid, and to adopt policy measures such as exchange-rate realignments designed to slow down the redistribution of world trade and alleviate the pressure on the dollar. This attitude accelerated the crisis in the monetary system, because the increasing problems faced by the United States were compounded by the behaviour of the industrialized countries which had balance of payments surpluses.

The expansion and reorientation of world trade, which led to a relative reduction in the United States' share compared with the position at the end of the Second World War, did not favour the developing regions: their proportion declined from one-third in 1950 to less than one-fifth in 1970, while the gap between the stages of development reached by industrialized and developing countries continued to widen.

The process whereby agreement was gradually reached that this system could not continue - in spite of certain adjustments which included the devaluation of the pound and the franc, the revaluation of the mark and the establishment of a free market for some gold transactions - was based on several factors that complemented one another. First, some developed countries - particularly the Federal Republic of Germany and the Netherlands - began to feel that as their economies were operating under conditions of full employment they stood to obtain no further benefits from the excess international liquidity, but on the contrary ran the risk of inflation. Secondly, the deficits in the United States balance of payments in 1970 and 1971 were such that the continued operation of the system was unacceptable from a quantitative standpoint and too hazardous, while the joint dollar holdings of the developed nations far exceeded the United States' stocks of gold. Thirdly, the operation of the dollar standard was becoming more and more unacceptable and inequitable, since in practice it was directed by the unilateral decision of a country which, in the view of the other countries, was not making enough effort to remedy, even to a modest degree, the imbalances in its economy. Fourthly,

/the United

the United States became convinced that the continuous deficits in its balance of payments and the course that the international monetary system was taking were incompatible with the proper development of its economy, where dangerous signs of unemployment and inflation accentuated the deterioration of its competitive position.

In other words, it took a long time and a combination of circumstances for a country which was in "fundamental disequilibrium" (in IMF terms) to adopt remedial measures: primarily the devaluation of its currency. This delay was due not only to the factors noted above but also to the fact that the system adopted at Bretton Woods lacked the flexibility to cope with a situation in which the base economy and currency of the system were those showing the greatest weakness.

The developing world, which did not receive special treatment under the monetary system that was in force for a quarter of a century, has not received special treatment either in the transitional period which began on 15 August 1971 and is of no set duration. Thus, in addition to the matter of principle at stake in that the developing regions have so far been completely excluded from the negotiations leading to the reconstruction of the system, some very palpable adverse effects on the economies of the developing nations have been caused.

Some of these effects are particularly worthy of mention. In the first place, the prolonged monetary crisis has created additional factors which are slowing up the already weakened rate of growth of some European countries and Japan and have created uncertainty in the international markets. Both these effects have had unfavourable repercussions on the volume and price of exports from developing countries. Secondly, because of the nature of this transitional period, there has been a setback in the implementation of the objectives in the fields of trade and development finance which had been accepted by the developed countries at the international level. Thus, for example, there has been delay by several industrial countries in putting into practice the generalized system of preferences, and the official aid provided by some countries, notably the United States, has dwindled.

/Thirdly, the

Thirdly, the currency realignments agreed upon in December 1971 reduced the real value of the international holdings of developing countries by about 1,000 million dollars,<sup>2/</sup> while they also pushed up the real value of that part of the developing world's external debt contracted in the revalued currencies and are bound to lead to a deterioration in its terms of trade. Lastly, the specific measures adopted by the United States as from 16 August 1971 - particularly the temporary surcharge of 10 per cent on imports - naturally created uncertainty and concern among the Latin American countries because of their impact on the development of their fastest-growing exports to that market. Although the surcharge was subsequently cancelled, the indifference shown by the United States, as on previous occasions by other industrialized countries, regarding the impact of their internal economic measures on the growth of developing countries continues to be a source of concern to the countries in the region. Such attitudes tend to paralyze or disrupt the developing nations' efforts to expand and diversify their export flows to developed countries. Added to this was the impact of the 10 per cent reduction in the economic aid provided by the United States, although after intensive negotiations Latin America was excepted from this measure.

To sum up, the adverse repercussions on the economies of the developing countries of the monetary crisis and the solutions so far adopted have been many and far-reaching.

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<sup>2/</sup> See UNCTAD International monetary issues (TD/B/C.3/98), page 19.

2. Some general aspects of the reform of the system

In the establishment of a new monetary system, the following main objectives and criteria should be borne in mind:

(a) The system should permanently guarantee a situation of international liquidity appropriate for the expansion of world trade and for the acceleration of the growth of the exports and economies of the developing countries. This means that from its inception the system - unlike that established at Bretton Woods - should incorporate a body of rules taking due account of the special problems of the developing countries. This call for differential treatment should not be considered in any way unusual, since it simply means extending to the monetary and financial field a principle which has already been accepted in the sphere of trade. Steps should be taken to see that this principle is put into full practical effect.

There are two complementary points to consider in connexion with the necessary expansion of world trade. The first is the imperative need in the present situation to prevent the depressive trends shown by some industrialized European countries and Japan from spreading. These countries should attach more importance than in the past to the adoption of measures designed to stimulate domestic demand, in order to offset at least partially the contraction of external demand which they are probably facing. Such action would naturally not exclude any measures they might adopt to promote the development of their external sector. This point is dealt with more fully later.

The second point of interest is the opportunity offered by the present period of reconstruction of the system to endeavour to incorporate the socialist countries into the new machinery. In the present phase of international relations, where trade as well as political links between the market-economy and socialist countries are being strengthened, it seems logical that efforts should also be made to broaden the base of the world monetary system.

/(b) It

(b) It is a matter of crucial importance that the developing countries should participate effectively from the outset in the negotiations concerning the reform of the monetary system and, later, in its actual operation. In this respect it is useful to recall, first of all, paragraph 4 of Economic and Social Council resolution 1652 (LI) of 29 October 1971, in which the Council "Affirms that all member States of the International Monetary Fund should be given the opportunity to participate fully and from the outset in consultations and negotiations leading to international monetary reform". Moreover, the Lima Programme of Action (section A.I, paragraph 6) notes that it is "entirely unacceptable that vital decisions about the future of the international monetary system which are of concern to the entire world community are sought to be taken by a limited group of countries outside the framework of the International Monetary Fund".

So far, the reconstruction of the monetary system is being decided exclusively within the framework of the Group of Ten, although the Group's meetings are attended by the Managing Director of the Fund. This procedure, which is completely contrary to the principle of participation in the negotiations by developing countries, strengthens the need for the establishment of an intergovernmental group to represent the views sustained by the Group of 77, as advocated in the guiding principles agreed upon in the Lima Programme (section A.I, paragraphs 13, 14 and 15). If this course, or another with the same end in view is not followed the developing nations will continue to operate within a monetary organization in which all they can do is to ratify in the last stage of the reform process what has already been laid down and decided by a few industrialized nations.

(c) In the Lima Programme of Action it was agreed that "the role and authority of the International Monetary Fund should be re-established and strengthened in all matters that concern the whole international community, as an effective way of safeguarding the interests of all countries especially of the developing countries". It was further agreed that "the voting power of the developing countries in the International Monetary Fund should be increased by introducing provisions in the Articles of Agreement of the International Monetary Fund in order to increase the number of votes allocated to these countries".

/In other

In other words, the idea is that world monetary policy should truly be directed by the IMF and that developing countries should have effective and increased participation in directing it.<sup>3/</sup>

In another connexion, it is important that, whatever course is followed in reconstructing the monetary system, special attention should be paid to the mobilization of the present reserves of dollars and sterling in the central banks of developed countries, both in relation to the impact which any concerted action to channel certain imports to developed areas might have on the trade of developing countries, and with a view to securing the use of those holdings as a means of creating additional liquidity for developing countries or reducing the cost of financing. These objectives could be attained through the use of mechanisms and methods suggested by monetary experts or others, based on the IMF's proposals. It is also important to consider the possibilities which such action opens up to developed countries with such reserves of implementing national investment or financing policies in favour of developing countries.

3. The attitude of the developing countries to a new monetary system

The Lima Programme of Action, which stipulates with great precision the main features that should be introduced in the new monetary system, states that "the following considerations and guidelines, among others, should be taken into account in the exploration of solutions to the crisis:

(a) it is indispensable to the restoration of stability and confidence in the world monetary system that a satisfactory structure of exchange rates maintained within narrow margins should be established;

(b) the new system must provide a mechanism for creating additional international liquidity, through truly collective international action, in line with requirements of an expanding world economy and the special needs of developing countries, and with such safeguards as will ensure that the total supply of international liquidity is not unduly influenced by the balance of payments position of any single country or group of countries;

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<sup>3/</sup> See UNCTAD International monetary issue (TD/B/C.3/98), chapter V and annex.



(c) the creation of a link between SDRs and additional resources for financing development should be made an integral part of the new international monetary system;

(d) the adherence of the developing countries to a new international monetary system necessarily presupposes the existence of a permanent system of guarantees against exchange losses affecting the reserves of these countries. In any case a mechanism should be worked out to compensate developing countries against involuntary losses they have suffered because of currency speculations in certain currencies of developed countries".

With regard to paragraph (a), it is obvious that a system where parities fluctuate within fairly wide margins would have an unfavourable impact on developing countries. This is particularly so because excessive fluctuations introduce a permanent factor of instability in international trade which has a more serious effect on countries which are less prepared and lack the experience to contend with problems of this kind, i.e., precisely the less developed countries.

Bearing in mind that short-term capital movements are the main determining factors in parity fluctuations, it is particularly important that the industrialized countries should attach more importance to the adoption of internal measures to curb such movements. This course was actually envisaged at Bretton Woods but, with few exceptions, the developed countries never put it into practice.

In order to comply with paragraph (b) of the excerpt from the Lima Action Programme reproduced above it would seem necessary to include an additional feature in the new system. As strongly maintained by the Latin American spokesman at the last meeting of the International Monetary Fund in Washington, the basic source of international liquidity and the central instrument of reserves should not be identified with national currencies and should increasingly become a fiduciary instrument like SDRs.<sup>4/</sup>

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<sup>4/</sup> See document XIII - GOBCEL/7, Rev.1.

/Clearly this

Clearly this feature is of particular importance because it would enable the dollar-standard system with all its limitations to be gradually eliminated and the stability and independence of the new monetary system to be progressively enhanced. In this latter respect, the IMF would obviously have a better chance of effectively directing the operation of this system if its base unit is a fiduciary instrument which is created independently of the member countries and is issued and circulated under the supervision and control of the IMF itself.

If a more important role is assigned to Special Drawing Rights it becomes more urgent to adopt procedures whereby the developing nations can have greater access to them. The first step, as already suggested, would be to adopt a different criterion for the distribution of SDRs when they are next allocated, so that developing countries may receive a bigger proportion than that determined by the IMF quotas. The adoption and implementation of this formula is not an alternative to the establishment of a link between the allocation of SDRs and additional development finance, but on the contrary complements such a measure. An important fact to remember is that, in view of the slowing-up of the expansion of international trade, an increase in the purchasing power of developing regions in the near future would be a much-needed stimulus.

The second step would be to establish a link between the allocation of Special Drawing Rights and the provision of additional finance to developing countries, a point which was also included in the Lima Action Programme. This issue was discussed in the chapter on financial resources for development, so it is unnecessary to go into it again here.

Thirdly, it is necessary that the international community should accept the principle that the balance-of-payments deficits which may give rise to the use of SDRs must be only temporary, and it should be specified as far as possible exactly what is meant by this. The aim of this would be to try to limit the use of SDRs by developed countries which have balance of payments deficits over long periods. What happened in 1970 and 1971 was instructive in this respect: the United States and the United Kingdom have been the main users of SDRs, and the EEC has been the principal acceptor. In other

/words, because

words, because the established procedure provides simply that SRDs may be used by deficit countries; and because there is no clear limitation as to what kind of deficits may be financed, a curious situation has arisen in which two of the greatest industrialized countries - one of them being the basis of the system - were the main beneficiaries under the system created at the end of 1969.

In principle, it should be easier for the United States to prevent or avert continuous deficits in its balance of payments if increasing importance is given to SDRs as the base unit of the system, for the situation whereby the country acting as a central bank creates international liquidity by the peculiar method of financing its own deficit would lose some of the attraction it may hold for various countries if the system provided for and permitted the generation of liquidity through other means. The best way of generating liquidity would be the provision of additional financing to developing regions.

In short, the greater the importance of SDRs within the monetary system and the more limited the application of the principle permitting their use for financing continuous balance of payments deficits, the more significant will be the role of the additional financing provided to developing countries through SDRs to ensure an adequate expansion of the international means of payment. The significance of this issue and the prospects it holds out for developing regions and industrialized countries alike are therefore quite clear.

Lastly, in paragraph (d) of the section of the Lima Action Programme quoted above it is affirmed that the existence of a permanent system of guarantees against exchange losses affecting the reserves of developing countries is necessary in the new system.

The importance of the adoption and implementation of this principle cannot be over-emphasized, having in mind the reduction in the real value of international reserves resulting from the exchange-rate realignments approved in December. It must not be forgotten that since the developing countries' reserves were kept mainly in dollars - not in gold or European

/currencies - they

currencies - they were severely affected by the changes in parities. It would not be fair if this were to happen again, since it would mean introducing disruptive elements into the system itself and encouraging speculation with different forms of reserves by national monetary authorities in order to protect the real value of their holdings.

It is therefore a matter of urgency to adopt specific measures in this connexion, including the approval of compensation for losses incurred by developing nations as a result of the recent currency realignments.<sup>5/</sup>

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<sup>5/</sup> See UNCTAD International monetary issues (TD/B/C.3/98), pages 19 and 20.

Chapter XIII

THE TRANSFER OF TECHNOLOGY AND TECHNOLOGICAL RESEARCH  
AND DEVELOPMENT ACTIVITIES

1. Evolution of technology in the developed countries

The rapid technological progress achieved in the industrialized countries in recent years is due basically to two mutually complementary factors, namely: systematic technological research and development activities which are fostered in each of the countries by large-scale investment and highly-qualified staff, and the active marketing of technology among local and foreign enterprises. The developed countries devote substantial proportions of their resources to pure and applied research: about 3 per cent of the gross domestic product in the United States and France, between 2 and 2.5 per cent in West Germany and the United Kingdom and around 1.5 per cent in Japan (see table 1). On average, around 63 per cent of these sums are spent on research by enterprises, around 20 per cent on research by national research institutes, and the rest on research by university or non-profit-making research institutes. The main sources of financing for these research costs are the government and private firms. Although it is possible that in some of the countries mentioned a good deal of the expenditure is in connexion with military research, the fact that such substantial proportions of the GDP are spent on research is evidence of a considerable research effort.

Moreover, after the Second World War, and particularly from the 1960s onwards, there was a notable increase in the trade in technology between the developed countries. The average annual growth rates of income and payments in respect of transfers of technology between the developed countries during the period 1960-1968 were greater than the corresponding rates during the same period in respect of exports and imports of goods.

/Table 1

Table 1  
INTERNATIONAL COMPARISON OF EXPENDITURE ON TECHNOLOGICAL RESEARCH AND DEVELOPMENT AND TRADE IN TECHNOLOGY  
(Millions of dollars)

| Year | United States |                              |                    |                    |             | United Kingdom a/ |                              |                    |                    |             | France      |                              |                    |                    |             | West Germany |                              |                    |                    |             | Japan       |                              |                    |                    |             |
|------|---------------|------------------------------|--------------------|--------------------|-------------|-------------------|------------------------------|--------------------|--------------------|-------------|-------------|------------------------------|--------------------|--------------------|-------------|--------------|------------------------------|--------------------|--------------------|-------------|-------------|------------------------------|--------------------|--------------------|-------------|
|      | Expenditure   | Per-cent<br>age<br>of<br>GDP | In-<br>come<br>(a) | Out-<br>lay<br>(b) | (a)/<br>(b) | Expenditure       | Per-cent<br>age<br>of<br>GDP | In-<br>come<br>(a) | Out-<br>lay<br>(b) | (a)/<br>(b) | Expenditure | Per-cent<br>age<br>of<br>GDP | In-<br>come<br>(a) | Out-<br>lay<br>(b) | (a)/<br>(b) | Expenditure  | Per-cent<br>age<br>of<br>GDP | In-<br>come<br>(a) | Out-<br>lay<br>(b) | (a)/<br>(b) | Expenditure | Per-cent<br>age<br>of<br>GDP | In-<br>come<br>(a) | Out-<br>lay<br>(b) | (a)/<br>(b) |
| 1960 | 13 710        | 2.7                          | 650                | 67                 | 9.70        | -                 | -                            | -                  | -                  | -           | 762         | 1.7                          | 48                 | 91                 | 0.53        | -            | -                            | -                  | -                  | -           | 512         | 1.1                          | 2                  | 95                 | 0.02        |
| 1961 | 14 500        | 2.8                          | 711                | 80                 | 8.90        | 1 827             | 2.4                          | -                  | -                  | -           | 893         | 1.8                          | 56                 | 105                | 0.53        | 1 181        | 1.5                          | -                  | -                  | -           | 681         | 1.2                          | 3                  | 112                | 0.03        |
| 1962 | 15 610        | 2.8                          | 837                | 100                | 8.37        | -                 | -                            | -                  | -                  | -           | 1 063       | 1.9                          | 55                 | 120                | 0.46        | 1 436        | 1.6                          | -                  | -                  | -           | 781         | 1.3                          | 7                  | 114                | 0.06        |
| 1963 | 17 350        | 2.9                          | 927                | 111                | 8.35        | -                 | -                            | -                  | -                  | -           | 1 306       | 2.1                          | 139                | 189                | 0.73        | 1 750        | 1.9                          | 50                 | 135                | 0.37        | 892         | 1.3                          | 9                  | 137                | 0.07        |
| 1964 | 19 180        | 3.0                          | 1 057              | 127                | 8.34        | 2 143             | 2.3                          | 123                | 115                | 1.07        | 1 650       | 2.5                          | 144                | 191                | 0.76        | 1 648        | 1.6                          | 62                 | 153                | 0.40        | 1 061       | 1.3                          | 14                 | 156                | 0.09        |
| 1965 | 20 470        | 2.9                          | 1 246              | 134                | 9.29        | -                 | -                            | 134                | 129                | 1.04        | 1 978       | 2.8                          | 168                | 213                | 0.79        | 2 008        | 1.7                          | 75                 | 166                | 0.45        | 1 183       | 1.3                          | 17                 | 167                | 0.10        |
| 1966 | 22 285        | 3.0                          | 1 380              | 140                | 9.86        | 2 453             | 2.4                          | 160                | 132                | 1.21        | 2 201       | 2.9                          | 180                | 243                | 0.74        | 2 238        | 1.8                          | 73                 | 175                | 0.42        | 1 358       | 1.3                          | 19                 | 192                | 0.10        |
| 1967 | 23 680        | 3.0                          | 1 567              | 171                | 9.16        | -                 | -                            | 176                | 165                | 1.07        | 2 503       | 3.1                          | 195                | 230                | 0.85        | 2 575        | 2.1                          | 90                 | 192                | 0.47        | 1 684       | 1.4                          | 27                 | 239                | 0.11        |
| 1968 | -             | -                            | 1 805              | 194                | 9.30        | -                 | -                            | 200                | 185                | 1.08        | -           | -                            | 165                | 275                | 0.60        | -            | -                            | 99                 | 220                | 0.45        | 2 133       | 1.5                          | 34                 | 314                | 0.11        |
| 1969 | -             | -                            | 1 858              | 192                | 9.68        | -                 | -                            | -                  | -                  | -           | -           | -                            | -                  | -                  | -           | -            | -                            | 97                 | 283                | 0.38        | -           | -                            | 46                 | 368                | 0.13        |

Source: United States: National Science Foundation. United Kingdom: "Statistics of Science and Technology", Board of Trade Journal (25 March 1970). West Germany: Monthly report of the Federal Bank and information supplied by the Ministry of Education and Science. France: Balance of payments statistics. Japan: Agency for science and technology.

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With the speeding up of technological progress, the life-cycle of a technological advance is rapidly shortened. For instance, in the manufacture of plate glass, innovations in the production process appear on average every six years; in pharmaceuticals, the useful life of most products is not more than two to six years. As regards capital goods, progress in such aspects as size, speed, precision, degree of automation, reliability, etc., gives rise to accelerated obsolescence. In the computer field, the trade cycles are more or less five years.<sup>1/</sup>

This means that the economic benefits provided by a new type of technology must be obtained within its life-cycle. As there is a constant increase in the investment required to develop a new technology, however, enterprises are obliged to exchange or sell new technologies developed by themselves immediately after they are perfected in order to recover their expenditure on research and make profits.

A stimulus to the marketing of technology is the fact that technology is composed of numerous specialized elements whose exchange between the enterprises of the developed countries enables those enterprises to avoid duplication of expenditure on research and allows them to go in for increasing specialization. The enterprises of the advanced countries use many forms of transfer and sources of supply of technology; publications, purchase of samples, employment of consultants, joint research, foreign investment, etc., but most of all they use individual contracts relating to specific items of technology.

The enterprises of developed countries usually have a large store of technological know-how at their disposal in the pre-investment, construction and operation stages, which strengthens their negotiating position and enables them to acquire the additional items of technology they need by the most economical transfer channels. Transfer channels are limited, however, in some branches of modern industry where technological progress is more rapid, such as petrochemicals, electronics and nuclear energy. Thus, in the computer industry, a single enterprise dominates 70 per cent of the world market thanks to its technical expertise, backed up by a large number of patents and a large stock of technological know-how. This enterprise transfers its technology to other countries

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1/ See E. Jantsch, La prévision technologique, OECD, Paris, and ECLA, La transferencia de la tecnología (E/CN.12/L.66).

only through its subsidiaries. Therefore, in most of the industrialized countries, the local computer industries do not have easy access to the technology developed by that enterprise and cannot reach its technological level. As computers occupy an increasingly important place in all spheres of national activity, the fact that they cannot develop a technologically autonomous computer industry is a serious hindrance for most industrialized countries.

Another example of technological oligopoly concerns the production of integrated circuits, which are causing radical changes in the electronic industry. Currently, most enterprises in this field cannot produce such circuits until they have entered into agreements with the four patent-owning enterprises which complement each other. Under these agreements, the recipients of the technology are obliged to pay back 12 per cent of their sales revenue in the form of royalties.

2. Transfer of technology from the developed countries to the Latin American countries

The Latin American countries have been laying stress in a number of international forums on the need for them to be able to acquire foreign technology on more equitable terms.<sup>2/</sup> While there is no denying that imported technology strengthens the productive capacity of the countries of the region, it is considered essential that such technology should become a factor promoting more dynamic economic development in general, under conditions consonant with the objectives of the International Development Strategy, that it should reduce rather than perpetuate technological dependence, and that it should help to relieve the balance-of-payments problems of those countries by stimulating exports or making possible efficient import substitution on the basis of the transfer of technology at reduced cost.

It is a fact that the acquisition of foreign technology is the most important single means of accumulating the technical know-how

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<sup>2/</sup> In CECLA resolution 2/XII (October 1971) specific proposals were set forth in connexion with the need to formulate the bases for new international legislation on the transfer of technology.

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necessary to the industrial and economic development of the Latin American countries and that technological requirements have been increasing consistently in recent years. On the basis of provisional estimates, it may be said that between 1964 and 1968 world payments for the purchase of technology (excepting the socialist countries) rose from 1,620 million to 2,630 million dollars, the corresponding figures for Latin America in the same two years being 250 and 500 million dollars, that is, 15 per cent and 19 per cent of the respective totals. As may be imagined, the Latin American countries and the developing countries in general recorded the greatest relative increases in demand for technology to satisfy their enormous and growing needs for technological and production know-how. In the particular case of Latin American countries, the current conditions on which foreign technology is marketed and the lack or weakness of local technological research and development activities have prevented the flow of technological know-how from producing the real benefits that might be expected. Such benefits are also limited by a number of other factors, including the following:

- (i) The real cost of the technology is higher than the estimated cost;
- (ii) The methods of transfer currently employed tend to perpetuate the technological dependence of the countries of the region on external sources, instead of increasing national technological potential;
- (iii) Generally speaking, while the foreign technology helps to strengthen the productive capacity of the national economy, it also frequently becomes the principal factor in raising production costs;
- (iv) The technology transferred does not always contribute to the expansion of exports of manufactured goods, or else contributes only to a slight extent;
- (v) The technology acquired is often incompatible with local conditions (factors of production, unemployment, availability of natural resources and intermediate goods, cost structures, etc.), thus leading to imbalances in production activities and a high social cost.

/The contradiction

The contradiction between the growing technological requirements for industrial development and the unsatisfactory results achieved by the marketing of technology poses a crucial problem for the countries of Latin America. This is partly borne out by studies recently carried out in Brazil, Mexico, Chile and Colombia.

A large proportion of the technology used in Latin America is acquired by subsidiaries of international enterprises and by independent foreign firms. A recent study shows that in Brazil the payments made by subsidiaries and affiliates of international enterprises to the parent firms are on average eight times higher than the payments made by national enterprises and more than four times higher than the payments made by foreign firms having no ownership tie with the supplier of external technology. Moreover, if an analysis is made of the structure of payments for the transfer of technology, the conclusion is reached that most of such payments are for technical assistance, while a much smaller proportion are royalties for the use of patents and registered trade marks - the opposite to the situation observed in the developed countries. In the study on Brazil, for instance, it is pointed out by way of example that in 1969 payments for the purchase of foreign technology in all branches of economic activity amounted to 90.8 million dollars, of which payments for technical and management assistance accounted for 83.9 million dollars, or 92.4 per cent, and patent and trade marks royalties 6.9 million dollars. A similar situation is also observed in other countries of the region.

It should be noted, however, that not all technical assistance payments really are made for that purpose; it is a well known practice on the part of many enterprises to remit abroad, under the heading of technical assistance, payments of dividends or royalties, so as to evade certain internal taxes in the countries of the region. Thus, for instance, Mexico recently had to abolish its system of preferential fiscal treatment for technical assistance and establish a uniform system of treatment of all payments in respect of the transfer of technology.<sup>3/</sup>

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<sup>3/</sup> See Nacional Financiera S.A./ECLA, La política industrial en el desarrollo económico de México (Mexico, August 1971).

The transfer of technology through foreign investment may be beneficial for those Latin American countries that do not have sufficient capital or adequate technological potential. But at the same time, this means of transfer is advantageous to the suppliers of technology, since it generally assures them of high profits in the form of fees, dividends or other direct payments, plus, in many cases, profits in the form of additional charges on raw materials, intermediate goods, machinery, equipment, engineering, management and staff training services, etc., which in other circumstances could be bought at a lower price.

Global contractual agreements between enterprises are another important means of transfer of technology to the Latin American countries. In such turnkey agreements, the supplier of the technology provides all the know-how needed for the design, construction and operation of the production plant. In most cases, the contract includes the concession of rights to use patented and non-patented technical know-how. As the ownership of the enterprises and the future decisions to be taken in connexion with it remain in the hands of local nationals, the supplier of technology has a smaller degree of control than in the case of transfer through foreign investment. However, in this case too the recipient frequently has to pay additional charges on machinery and equipment, over and above the initial payments and fees. These additional charges may even cover raw materials and intermediate goods, although this occurs in fewer cases.

Individual contractual agreements vary according to the elements of know-how they cover. In the Latin American countries, as in the other developing countries, nearly all individual contracts cover a wide variety of patented and non-patented know-how in respect of production processes, engineering design, plant construction, staff training, etc. This reflects the inadequacy of the technological resources of the recipient countries in the region.

The transfer of technology through individual contracts is generally of greater benefit to the recipients, since it enables them to obtain the elements of know-how they require from a broad range of suppliers and on better terms. However, the cost of the technology

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obtained in this way is not always low, owing to the poor bargaining position of the Latin American enterprises and, in some cases, the dominant position of the suppliers, some of whom are members of a technological oligopoly. The contracts sometimes include a clause whereby a certain minimum payment must be made regardless of the amount of sales, and this constitutes a heavy burden on the countries of the region, which do not normally have big enough domestic markets.

Both global and individual contractual agreements frequently include restrictive clauses applying to the recipients. One of the most common is the tied-purchase clause which obliges the recipient to buy machinery and equipment and sometimes even raw materials and intermediate goods from the enterprise supplying the technology.

Another common clause is one that restricts exports by limiting the sales of the recipient enterprise to the domestic market or to specific external markets. In the case of the countries of the Andean Group, this is one of the clauses that is most frequently encountered in contracts for the sale of technology. Out of 451 contracts investigated,<sup>4/</sup> 317, or 70 per cent, contained clauses forbidding the export of articles produced using the technology that was the subject of the contract. In another 57 contracts, which together with the foregoing represent 83 per cent of the total investigated, exports were permitted only to specific areas. In 302 of the contracts (67 per cent of the total) there were clauses providing for the compulsory purchase of intermediate and capital goods from the same supplier of technology. In some countries, such as Colombia, and in certain sectors, such as pharmaceuticals, this percentage is much higher.

In addition to the problem mentioned above, which are due to the currently prevailing methods of marketing foreign technology, another problem of equal or greater importance stems from the fact that foreign technology often does not effectively contribute to increasing national technological capacity but, on the contrary, tends to perpetuate the region's technological dependence on external sources. This problem is

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<sup>4/</sup> See C.V. Vaitsos, El proceso de comercialización de la tecnología en el Pacto Andino (Lima, October 1971).

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accentuated by the fact that local technological research and development services are sometimes unable to absorb the technology required at the enterprise level or to use it as a basis for creating their own innovations and new elements of technological know-how.

Latin American enterprises in general, both private and public, have not paid the necessary attention to technological research and development activities or to the creation of an adequate infrastructure in the scientific and technological field. This is shown by the low proportion of the GDP devoted to these activities in the various countries of the region.<sup>5/</sup> Although the available information on this matter is very imprecise, it may be estimated that, at the end of the 1960's, the Latin American countries were spending no more than 270 million dollars on these activities, which represents around 0.2 per cent of the Latin American gross domestic product. This situation contrasts sharply with the proportions of the GDP devoted to these activities in the developed countries. Moreover, if the ratio between expenditure on technological research and development and payments for the purchase of technology is worked out, it will be observed that there is a very considerable difference between the values of this ratio for the developed countries and Latin America as a whole (United States 138, United Kingdom 18, West Germany 13, France 11, Japan 7 and Latin America approximately 0.5).

Of the Latin American countries which, at the end of the 1960's, were spending a significant part of their GDP on technological research and development compared with the region as a whole, mention may be made of Argentina, which was spending about 50 million dollars (0.28 per cent of the GDP); Brazil, which plans an expenditure on the part of the Federal Government alone of more than 280 million dollars for the period 1970-1973, representing an annual expenditure of more than

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<sup>5/</sup> The International Development Strategy recommends that the developing countries should increase their expenditure on research and development and endeavour to attain a minimum average level equivalent to 0.5 per cent of their gross product by 1981 (paragraph 61 of General Assembly resolution 2626).

70 million dollars, or 0.23 per cent of the GDP; Mexico, where expenditure for 1969 is estimated at between 40 and 50 million dollars (less than 0.15 per cent of the GDP); Venezuela, which spends between 25 and 30 million dollars a year (0.25 per cent of the GDP) on research and development, and Chile, which spends around 0.43 per cent of its gross domestic product. In the case of Chile, it should be mentioned that the proportion of the country's GDP spent on technological research and development rose from 0.33 to 0.43 per cent between 1965 and 1968 which, apart from representing a considerable upswing, would appear to signify that at the current rate of progress expenditure on research and development would represent 1 per cent of the GDP in ten years' time.<sup>6/</sup>

Moreover, "a further limitation upon the development of technological capacity in Latin America stems from the fact that many of the small- and medium-size industrial enterprises which are characteristic of the region are too limited in their resources, scope of operation and managerial outlook to be able adequately to appraise, select and utilize available foreign technology, even when much of this is freely available in the public domain without the protection or costs associated with patent rights".<sup>7/</sup>

The foregoing leads to the conclusion that the Latin American countries must redouble their efforts to achieve closer co-ordination between their technological research and development activities and their national programmes of industrialization; they must stimulate local enterprises to adopt a more rational and selective approach to the problem of acquiring foreign technology and to transform themselves from passive recipients of know-how into creators of technology; and they must programme and increase their expenditure on research and development in order to expand the national infrastructure in the field of science and

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6/ See S. Lazzerini, Fuentes y utilización de recursos financieros para investigación en Chile (CONICYT, Santiago, Chile, January 1971).

7/ "The transfer of technology and its relation to trade policy and export promotion in Latin America", Economic Bulletin for Latin America, vol. XIV, No. 1, 1969.

technology. Taken in conjunction, these measures will not only produce the desired effects on technology and production, but also create favourable conditions for the exchange of technological know-how between the countries of the region and reduce the emigration to developed countries of national technicians attracted abroad by the broad field of research that is offered to them.

3. Some general measures for the effective transfer of technology and for the strengthening of local technological research and development activities

The formulation and execution of national policies to create more appropriate conditions for the transfer of technology in Latin America and to strengthen local technological research and development "must necessarily be viewed as a part of the long-term strategy to advance industrialization, but given a long view there is no doubt that such action by the Governments of the ECLA member countries would eventually lead to a profound change in the technological environment and the industrial productive capacity of the region".<sup>8/</sup>

(a) Action at the national level

The Latin American countries should:

(i) Adopt a definite and appropriate policy to stimulate the effective transfer of technology, including a selective control of both the contractual conditions and the technological know-how that is being transferred or marketed, in keeping with the objectives of national industrial development policy;

(ii) Introduce measures to regulate transactions concerning technology by the subsidiaries of international firms and enterprises with mixed (foreign and national) capital. In all cases, the payment of inflated prices for goods purchased from the suppliers of the technology should be rejected and established enterprises should be required to use an increasing proportion of national inputs;

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<sup>8/</sup> "The transfer of technology and its relation to trade policy and export promotion in Latin America", op. cit.

(iii) Limit, in contractual agreements, the proportion of net sales or total production on the basis of which the payments due in respect of fees and royalties are calculated. Moreover, more firmness should be shown in negotiation and an attempt should be made to eliminate or mitigate those contractual conditions that directly or indirectly push up the cost of transferring imported technology or diminish the benefit derived from it, such as guaranteed minimum payments, obligation to purchase machinery, equipment, intermediate goods and raw materials exclusively from the supplier of technology, clauses restricting exports, etc.;

(iv) Consider the advisability of diversifying the channels and sources of the transfer of technology: in other words, use global contracts where appropriate, but at the same time step up the transfer of technology through individual contracts. In this way, each component of technological know-how would be covered by a separate contract, so that a large number of suppliers would be available to choose from under optimum economic conditions. The use of this method of diversified transfer normally calls for a certain amount of technological capacity on the part of the recipient. Consequently, it may not be immediately applicable to all countries or to all the branches of industry in a single country. At all events, however, this method offers concrete advantages, such as those of considerably reducing the cost of the technology purchased, stimulating the use of know-how already available in the recipient country, strengthening national technological capacity through the accumulation of experience that nearly always results from the co-ordination of the know-how transferred, etc.;

(v) Make increased efforts to strengthen their own capacity for technological research and development by devoting larger amounts of resources to these activities and putting "particular stress on applied research and ... the basic infrastructure of science and technology",<sup>9/</sup> since only by this means is it possible to adapt technology purchased abroad to local conditions, improve it through the addition of local innovations and solve the manifold problems that stem from the current conditions of marketing technology.

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<sup>9/</sup> See the International Development Strategy for the Second United Nations Development Decade, General Assembly resolution 2626 (XXV).



(b) Action at the regional level

The Latin American countries should take the necessary measures to:

(i) Facilitate and promote the exchange of information and experience in relation to the marketing of technology and its adaptation to local conditions, in order to facilitate the identification of suitable technology, and

(ii) Adopt concerted measures, through a broad programme of scientific and technological co-operation calling for international co-operation.

The developed countries and the competent international organizations should help the countries of the region to identify more effectively and gain improved access to the technologies best suited to their economic and social circumstances and requirements.<sup>10/</sup>

(c) Action at the international level

To comply with the objectives laid down in the International Development Strategy<sup>11/</sup> and the recommendations made by the developing countries in the Action Programme of Lima,<sup>12/</sup> the developed countries should co-operate fully with the developing countries in this field and especially, inter alia:

(i) Provide full informations on the patents which are in the public domain or belong to the Government in their countries, with indication of the main technical and production characteristics of such patents and facilitate their transfer to the countries of the region without payment;

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<sup>10/</sup> See CECLA, The Latin American Consensus of Viña del Mar, May 1969 and the resolution adopted by the Group of 77 (document TD/143).

<sup>11/</sup> General Assembly resolution 2626 (XXV), paragraphs 63 and 64.

<sup>12/</sup> The Declaration and Principles of the Action Programme of Lima adopted by the Group of 77 (October 1971) indicates various measures and types of action that should be adopted at the third session of UNCTAD in matters relating to the developing countries' identification of and access to suitable technologies, the cost, application and adaptation of imported techniques, and the special position of the least developed countries. Recommendations are made concerning desirable action by and the special obligations of the developing countries, international institutions and developed countries at the national, regional and world levels.

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(ii) Adopt some direct, specific measures, such as a system of subsidies or preferential treatment based on fiscal incentives, to promote the real and effective transfer of technology to the countries of the region;

(iii) Consider the possibility of using part of the money paid by Latin America for the transfer of technology to set up a fund to finance the research and development activities of the region. This could be considered as unrequited financial aid designed to strengthen the technological capacity of the Latin American countries;

(iv) Eliminate the practice of granting tied loans for the industrial development of the developing countries, since this procedure hampers and restricts the selection of suitable technology by the countries of the region; and

(v) Undertake consultations and joint action with the developing countries in order to revise international legislation on industrial property with a view to enabling technological advances to benefit a wider range of countries.

Chapter XIV

IMPACT OF ENVIRONMENT POLICIES ON TRADE  
AND DEVELOPMENT

1. Nature and general scope of the problem

The environmental protection programmes which are being undertaken by the industrialized countries could have serious consequences on the international relations and trade and development possibilities of the peripheral countries, so there is every justification for discussing this issue at UNCTAD III. On this occasion, however, only the main questions most directly associated with the aims and activities of UNCTAD will be discussed, with a view to establishing general criteria and positions. A more detailed analysis of the matter will be made at the United Nations Conference on the Human Environment, to be held in Stockholm from 5 to 16 June 1972, whose programme will deal as completely as possible with all aspects, including those brought up here.

(a) Characteristics of the problems of the human environment in the major centres and on the periphery

Environmental problems, which may be defined as a crisis in man's adaptation to the surrounding environment and in the conservation of the natural resources on which the human economy is based, affect both the industrialized and the peripheral countries, although in different ways and to different extents. These problems have implications which are already beginning to involve large areas of the world.

The developed countries are mainly concerned about physical pollution (of the atmosphere, of inland waters and seas, and of foodstuffs) and other undesirable manifestations assimilable to pollution which affect mental health and recreational possibilities, such as those due to factors which produce tensions in daily life or spoil the countryside. These phenomena are lowering the "quality" of living despite high income levels.

Most of the environmental problems in the developed countries are due to wasteful consumption habits and forms of industrial production which abuse the capacity of the ecological environment to absorb wastes and other types of pollutants. The solution of these problems is viewed as a responsibility of the public authorities, which, it is felt, should

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administer the environment as a public asset and distribute as equitably as possible, the costs of protecting it bearing in mind the goals and preferences of the society concerned. The developed countries also suffer - although to a lesser degree - from environmental problems due to poverty in backward areas and in the poorest parts of the urban centres.

In the peripheral countries, environmental pollution bears some similarity to what has been described above, but it is naturally the result of basically different situations and has its own particular features, although environmental problems in the big urban centres of the third world have some features in common with those in the developed countries.

The main environmental problems in the peripheral countries reflect the fact that these are developing areas. On the one hand there are serious pollution problems due to the lack of means for providing the services required for human communal living (housing, transport, health, etc.) and adapting the machinery of production to the requirements of environmental protection. On the other hand, the work of great masses of the rural population living at subsistence level and the inadequacy of the services which should protect natural resources from various forms of over-exploitation are resulting in substantial losses of the best of existing natural riches.

In reality, these are old problems which have not arisen as a result of development but which, it is true, need accelerated development in order to be rectified. Simultaneously, however, the process of development is producing the series of environmental problems which are to be seen in the industrialized countries. Where urbanization is rapid, problems of pollution and environmental deterioration caused by overcrowding have become more acute, and the growth of some industrial centres is adding to this load on the environment, all the more so because it takes place without protective measures which would raise costs considerably. Where there is great social inequality, the sort of pollution associated with high income levels is added to that stemming from poverty, because the richer elements in developing countries are adopting the consumption habits which have been revealed as a main cause of environmental pollution in the developed countries.

As may be seen from the foregoing, both groups of countries have serious problems from the point of view of environmental deterioration, but whereas the developed countries have at their disposal the means and

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technology to rectify this, the peripheral countries are at a serious disadvantage. Both groups of countries have to go to the socio-political root of the question and start from there in designing the instruments for corrective action, but as these roots are so profoundly different, the transfer of experience should be done very cautiously.

There is, however, a suitable field for joint action of undeniable urgency, namely, the field of the problems of pollution and environmental deterioration which affect great areas of the world and which are transferred indirectly, through trade relations and technological dependence, from the major centres to the peripheral countries. It is the problems of the latter which will be discussed here, since they are closely linked with the nature and possibilities of development of the individual countries.

(b) Environmental protection and development. The situation of the Latin American countries

Some observers in the industrialized countries have associated the increasing seriousness of pollution problems with a high level of development, and a policy of reducing the rate of economic and population growth has been advocated.

The repercussions of these new theories on the relationship between man and his environment are not known as yet and call for much deeper and more systematic analysis in the industrialized countries. The same is true of the application of a development and population policy of this type to the peripheral countries. It must be pointed out, however, that an environmental policy for the developing world based on a reduction of the rate of economic growth would meet with a decided refusal, since it would condemn three-quarters of the population to vegetate at standards which could not satisfy legitimate aspirations to greater well-being and would maintain or intensify the differences between the developing countries and the major centres. This explains why there is a certain reserve in the developing countries regarding the interest aroused in the major centres by environmental policies, which is obviously filtering out towards the periphery.

On the other hand, if the environmental problems of the peripheral countries are considered primarily as a reflection of their under-development, there would not necessarily be any conflict between environmental action and the accelerated development which these countries aim at as a first priority for improving their condition. This has been the conclusion of

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the majority of studies, meetings and resolutions which have dealt with the topic recently 1/. This is also how the authorities of the Latin American countries have interpreted the situation in beginning to formulate environmental policies which attempt to harmonize the pressures of persons who are authorities on these problems, or are affected by them, with the interests of overall economic and social development.

Action has been taken basically on two fronts: health and the defence of natural resources. In both cases groups of authorities have given notice of critical situations and are struggling to find solutions. The health authorities of the Latin American countries continually point out the need to improve drinking water, drainage and rubbish removal services, deficiencies in which are perhaps the principal causes of environmental pollution in the region. Much has been done in this field in recent years with the valuable technical assistance of PAHO and the financial aid of IDB, but much still remains to be done. Work has been begun on atmospheric pollution in the main Latin American cities affected 2/. In this connexion, special mention should be made of the work done by PAHO through the Pan American Centre for Sanitary Engineering and Environmental Science (CEPIS) based in Lima.

In their defence of renewable natural resources, agricultural authorities are receiving growing public support in their efforts to combat soil erosion, deforestation, the extinction of flora and fauna and the ecological imbalances produced by modern agriculture with its new methods, genetic innovations and chemical inputs. The protection of marine resources, which is of topical interest in international relations in the light of the disputes regarding sovereignty over coastal waters, has also seized the attention of the authorities.

With regard to human communities, there is a recognized need to improve the overall planning of the urban and rural environment, although it is not yet clear how the new environmental approach could really help to solve an acute problem which has been the subject of intensive study and whose solution requires massive capital investment, especially in housing and transport.

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1/ See United Nations, Development and Environment, Founex (Switzerland), June 1971; ECLA, Report of the Latin American Regional Seminar on Problems of the Human Environment and Development (ST/ECLA/Conf.40/L.5/Rev.1).

2/ Reference may be made in this context to the recent Mexican law and regulations, adopted in 1971, which establish strict obligations to control all sources of pollution by smoke and dust.

It is clear that there is insufficient knowledge of environmental phenomena and their consequences in Latin America. In order to aid the identification of the problems and formulate appropriate policies, it is necessary to bear in mind the situation and development prospects of each country. In many cases, such as that of health, environmental action links up with social projects already incorporated among the objectives of the programmes of the countries concerned and it should be evaluated according to the criteria applied to such projects. In such matters as the preservation of natural resources or assets for public enjoyment, protection may involve additional burdens which must be analysed in the light of the new criteria emerging in the environmental field. Some measures which put too heavy a load on national budgets will have to be postponed; other measures could be feasible if an effort is made to avoid rectifiable errors by an economically rational and socially viable choice among them. In other words, a choice between environmental conservation and the reduction or regulation of consumption (which is usually the price paid for the former) should allow the community to save considerable resources in the future.

In order to harmonize environmental aims with those of development, the environmental factor must become an integral part of the planning systems which operate to a greater or lesser extent in most of the countries of the region. In any case, each country must tackle its own environmental policy in keeping with its particular situation, in exercise of its national sovereignty, and according to the goals established for its economic and social development.

Although, as is usually the case in development matters, categorical distinctions cannot be drawn between what is of purely local interest (or is not influenced by external factors) and what could be termed the international repercussions of environmental policies, two types of problem can be identified: (a) problems concerned with pollution and disturbance of the environment on a vast international scale, such as marine pollution, climatic changes over wide regions, and contamination by radioactive waste; and (b) problems transferred indirectly from one region to another through trade relations, technology, external aid, etc.

Latin America bears little or no responsibility for the first type of problem, so the burden of the corrective measures will have to be borne by the major centres, which are mainly responsible for the damage done. The United Nations Conference on the Human Environment has worked intensively on these problems and is in the process of preparing appropriate initiatives and agreements. It is therefore unnecessary to go further into this subject in the present document.

/The second

The second type of problem, however, comes more directly within the scope of UNCTAD III.

2. Some considerations on the effects of environmental measures on the countries of the region

It has not yet been possible to make a systematic study of the variety of effects - positive or negative - which the environmental measures being taken in the major centres may have on the trade and development of the Latin American countries. Only a few have begun to be observed, mainly as a result of the stimulus of the United Nations Conference on the Human Environment. The discussions during the preparatory work for this Conference have brought out the main questions which concern the region, among which the following may be mentioned:

(a) In the field of trade

The demands for control of pollution in the industrialized countries are forcing changes in manufacturing processes, generally leading to a rise in production costs. Inputs such as electric power that enter into all kinds of economic activities are going up in price owing to the requirement that the process by which they are produced should not pollute the air or water. The steel and non-ferrous metals industries, the paper industry and industries producing certain plastic raw materials are among those which cause the greatest pollution, and their products, from which the manufactures that the region imports are made, will undergo price rises which according to some estimates will be of the order of 10 per cent, once the regulations which almost all the industrialized countries have undertaken to introduce within the next three to five years are put into effect. The trade balances of the Latin American countries will therefore be adversely affected to the extent that it is possible to transfer these increases in costs to export prices. The effect may be gradual, through a rise in prices of consumer durables and some capital goods usually imported by the region, or abrupt changes may have to be made in projects dependent on imported plant, which may be designed to incorporate the new anti-pollution techniques and thus be much more expensive (as in the case of plant for the iron and steel and other metal industries) than at present.

/The adaptation



The adaptation of industrial facilities to use new imported equipment with anti-pollution features may also cause problems, as in the case of cars designed to use petrol with a smaller proportion of lead additives <sup>3/</sup>.

If the price increases proved to be very high, as in the case of the industries producing the above-mentioned basic raw materials, and if the exporting Governments decided to take protectionist measures, even the countries in the region with the widest margins for de-pollution would lose their chances to compete, and the spirit of the GATT and UNCTAD agreements on the liberalization of trade would to some extent be betrayed.

Limitations on the export possibilities of the Latin American countries could also result from restrictions imposed by importing countries for health reasons, heightened by the desire to secure environmental protection. In imposing such restrictions, the importing countries would be acting within their recognized rights, but there is a fear that such action might lead to excessive restrictions or even to the introduction of veiled forms of protection for domestic products.

Restrictions based on health grounds may affect - and in some cases have already done so - exporters of food products (meat, fruit and vegetables, canned fish, etc.), and producers of raw materials such as high-sulphur content fuels (as in the case of Venezuelan oil).

Another consequence of the environmental policy of the major centres which may affect the demand for primary commodities and semi-manufactures exported by the region is the re-use of waste, which is an important part of environmental campaigns. This could affect the export market for some basic metals from the region, including lead, zinc, and tin, which have been suffering from low demand during the past few years and do not seem to have any better prospects for the future.

The tendency to seek substitutes for some equipment and products associated with pollution may also reduce regional exports of primary commodities. A typical case in point is the promotion of electric cars, the introduction of which would cut down severely the demand for lead for batteries, since the batteries for these new vehicles would not be made of lead.

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<sup>3/</sup> This is a problem in Mexico, on account of the difficulty likely to be experienced by United States tourists in finding suitable locally-refined petrol for their cars.

The same readjustments in demand could, however, improve export possibilities for natural commodities which are gaining ground in the markets of industrialized countries as against synthetic products. This could favour some regional exports such as vegetable oils and natural fibres (wool, cotton, sisal). It is, however, interesting to note that in many Latin American countries which produce these fibres, factories are being set up to produce synthetic fibres and the use of such fibres is being promoted, thus running counter to some extent to the campaigns being organized by producers of natural fibres.

One consideration which the Latin American countries should bear in mind in their trade negotiations on commodity prices emerges as a corollary of the increases which the industrialized countries are tending to impose on the prices of their manufactures in order to pay for environmental defence measures. It would only be fair for similar environmental protection surcharges to be added to the prices of the basic commodities of the region, the production of many of which results in serious deterioration of basic natural resources because the producer countries have no money to finance the environmental conservation measures recommended by modern technology. This applies to agricultural commodities produced by the use of extractive practices or of modern inputs (many of which conform with the standards set for their admission to the importing countries) which cause indirect damage to the environment. It also applies to mineral products in the extraction of which the producer countries still at the moment underestimate the gravity of harmful effects on the environment which the industrialized countries no longer tolerate (damage to the appearance of the countryside, for example).

(b) In the financial field

Closely associated with the foregoing is the question of the external aid required by the region in order to meet, without sacrificing development the extra burdens forced on it as a result of environmental protection measures in the major centres. If the money needed for this cannot come out of the income received for the commodities exported by the region, which is generally the case, additional financial assistance must be provided.

The sector of industry associated with pollution control (effluent treatment plants, for example) and the husbanding of natural resources as a part of the environmental policy of the major centres is growing rapidly (15 to 20 per cent per year) and is in fact competing for financial resources which could otherwise be used for external aid, thus aggravating the only too familiar restrictions already being met with in this field.

/There is

There is a tendency to include considerations of environmental conservation among the factors considered when evaluating eligibility for development loans, as a means of securing co-operation in a movement for the good of the world. Although this is a plausible proposition, it should be emphasized that it is for the country receiving aid to establish the basic patterns here, in accordance with its specific conditions, scales of values and preferences, and development priorities. Some guidance regarding desirable environmental measures could be offered by the international agencies which channel the aid, but there should never be any unconsidered or forcible transfer of alien patterns, which are inconsistent with every country's sovereign right to choose its own economic alternatives.

(c) In the field of transfer of technology and industrial development

The technological dependence of Latin American can - and does - have visible effects on the conservation of the local environment. The most obvious example of a negative effect is the adoption by the highest social strata of consumption models which produce pollution and disturb human communities.

It must, however, be acknowledged that the concern for the human environment in the major centres is having a beneficial effect on the region in stimulating a more generalized awareness of the problem and encouraging the search for solutions. It must be repeated, however, that caution should be exercised against an indiscriminate transfer of criteria and attitudes which could lead to the distortion of local priorities, especially as the result of distorted information and the activities of only partially informed technicians, for a topic like the environment has features which can easily arouse ardent enthusiasm and even fanaticism.

All this leads to an unavoidable policy conclusion: the need to speed up the economic and social analysis of the problem in the light of the actual situation in the countries of the region. The relative lack of interest in this problem shown by Latin American specialists in economic and social affairs leaves the way open for the introduction into the region of technological innovations - both those which are harmful to the environment and those which claim to protect it - with no guidance but alien criteria and the same entrepreneurial self-interest which has produced serious disequilibria in the industrialized world.

/In the

In the choice of industrial technologies, the countries of the region should not only keep alert to developments in the major centres and uncover any technologies having unfavourable effects, which may as already noted, be transferred through trade relations: they should also investigate the adaptation of processes which would make full use of local factors. If cheap or under-employed labour exists, for example, it could be used in such urgent and beneficial environmental protection works as the construction of drains or reafforestation, which do not require much capital or equipment.

A watch should also be kept for possible discoveries which may render obsolete some of the installations already existing in the region. An example of this is the situation which, it seems, may be emerging in copper-refining, where the new "wet" process may put refineries like those in Chile which use pyrometallurgical methods right out of the market.

One consequence of the environmental policy of the major centres which opens up new possibilities is the renewed interest being shown in schemes for the location of enterprises in the half-empty spaces of the peripheral countries, where there are still ample safety margins before dangerous levels of pollution are reached. This could attract investments in production projects which, if studied carefully in the light of the scientific knowledge now being accumulated on the subject of pollution, would not cause any great environmental damage, but would in contrast provide job opportunities and trade surpluses. This is of particular interest to countries producing raw materials, which could undergo further processing locally.

In agriculture, the need for locally-developed technologies is much greater, especially since the possibility of transferring experience is limited. This is especially true of the handling of tropical ecological systems, which are as abundant in the region as they are scarce in the developed countries where most agricultural research has been carried out.

3. The field to be covered by the United Nations Conference on the Human Environment

(a) Background

This Conference which is soon to be held in Stockholm originated in a resolution approved by the Economic and Social Council in 1968 and endorsed by the General Assembly in the same year 4/. The proposal was that the Conference should "serve as a practical means to encourage, and to provide guidelines for, action by Governments and international organizations designed to protect and improve the human environment and to remedy and prevent its impairment, by means of international co-operation, bearing in mind the particular importance of enabling developing countries to forestall the occurrence of such problems". In order to make preparations for the Conference, a Preparatory Committee was set up and has held three sessions (March 1970, February 1971 and September 1971). Under its auspices, five intergovernmental working groups have been dealing with the following themes: soils, marine pollution, surveillance, conservation and the declaration on the human environment.

When UNCTAD LIII meets, the fourth (and last) meeting of the Preparatory Committee will have taken place (March 1972) and Governments will have before them the official documentation of the Conference, consisting basically of: a draft Declaration on the Human Environment; a Plan of Action; a working document on each of the six main items of the agenda, setting out a basic statement of the issue to be considered, with recommendations for national and international action; a document on the activities of the United Nations system in the field of the human environment; a bibliography; and various draft conventions and proposals for action.

This material, prepared or compiled by the secretariat of the Conference, is the result of intensive preparatory work, which has really constituted an active stage of the actual Conference, and it reflects the deliberations of the Preparatory Committee, of the Intergovernmental Working Committees and of numerous meetings at the regional level or on particular topics which have been held under the auspices or with the

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4/ The basic resolutions are General Assembly resolutions 2398 (XXIII), 2581 (XXIV) and 2657 (XXV), and Economic and Social Council resolution 1536 (XLIX).

collaboration of the secretariat of the Conference. It also sums up the views of national and private authorities consulted by the secretariat and the views of the various United Nations agencies, all of which have been invited to take part.

As far as Latin America is concerned, it may be recalled that the secretariat of the conference, together with ECLA, organized the Latin American Regional Seminar on Problems of the Human Environment and Development, which took place in Mexico City, from 6 to 11 September 1971. At this meeting, Government experts discussed at length the relationship between environmental action and development from the point of view of the countries of the region, and made a general evaluation of the repercussions of the environmental policies of the developed countries.

At the twelfth meeting of CECLA at the ministerial level, the Commission approved a resolution on "The suspension of nuclear weapons tests" (16/XII) and another, entitled "Human environment" (17/XII), reaffirming the principle that no environmental policy should adversely affect the present or future development possibilities of the developing countries, especially as regards the external aid which these countries receive or their international trade.

Finally, at the twenty-sixth session of the General Assembly, two resolutions were approved on this topic, one of which (resolution 2850 (XXVI) of 20 December 1971) is a comprehensive acknowledgement of the proposals which the developing countries - especially those of Latin America - have been putting forward.

In considering the links between environmental policies and development and their repercussions on some areas which are of particular interest within the context of UNCTAD, an attempt has been made to indicate which elements in those deliberations affect the region.

It would perhaps be useful to complete the picture with a brief mention of those questions among the main topics to be discussed in Stockholm which are in some way relevant to Latin America and have been made the subject of specific proposals for action.

/(b) Aspects

(b) Aspects of the proposals before the Stockholm Conference which are of interest for Latin American development and trade

The main themes to be discussed at Stockholm are:

- I. The planning and management of human settlements for environmental quality.
- II. The environmental aspects of natural resource management.
- III. Identification and control of pollutants and nuisances of broad international significance.
- IV. Educational, informational, social and cultural aspects of environmental issues.
- V. Development and environment.
- VI. The international organizational implications of action proposals.

It can be seen that the agenda attempts to give an overall view of human activity and its relations with the environment. Items I and II, human settlements and natural resources, cover all aspects of community life and the elements linked with production. When item V, development and environment, is added, the picture is reinforced by the conceptual base necessary to make coherent what may be termed the restatement of development. Items IV and VI complete the theme by dealing with the organizational questions which provide means and criteria for action. Item III takes a detailed look at environmental problems from the point of view of the agents which cause them, the mechanisms which propagate them, and the means of controlling them, with special emphasis on problems involving broad regions. In each of the items mentioned, recommendations are made for action at the national and international levels.

There is a immense amount of work to be done by the individual countries internally and in accordance with their own needs and special features. The international community can support this work with financial aid, and by providing the information and technical assistance needed. Taking into account the direct or indirect interdependence which may exist between ecological systems, sometimes separated by great distances, it is not out of place to note the interest in some national experience, which should come from the community as a whole, although of course with due respect for the principle of full sovereignty which allows states to act as they think fit.

/As far

As far as international action is concerned, perhaps the only aspect of importance relevant to the question of human settlements is that of bilateral or regional consultations, which should be encouraged in the case of border areas, where joint action can be undertaken.

The area of natural resources is more appropriate for collective action, since there exist large numbers of shared resources which should be handled in co-operation. The transfer of experience may also be beneficial in cases where natural systems are comparable or homologous. This is so when dealing with soils, woods, waters, fauna and flora, parks and places of recreation, fishing resources, etc. The Stockholm Conference will have before it numerous proposals in these areas, which will later be of great importance in the development of the region and which UNCTAD could support all of these, since they tend to tighten regional links and defend the local patrimony.

The section on pollutants and nuisances of broad international significance contains some interesting proposals which the region should study carefully. The main pollutants affecting the atmosphere, waters, the sea and food, and the international agencies which deal with them (WMO, WHO, FAO, UNESCO) are listed. Greater activity in evaluating sources, trajectories, degrees of exposure and risks for man from heavy metals (mercury, lead, arsenic, etc.), chlorinated hydrocarbons (from plastic residues and some pesticides) and other substances is advocated, and limits of tolerance and standards of protection are discussed, while proposals are made for control and surveillance over broad areas; this may in many cases have serious economic effects on the structure of industry, on manufacturing processes and on the instruments of production and domestic appliances in the countries of the region. While the detailed analysis of these questions is the task of the Stockholm Conference, it would also be valuable for UNCTAD to touch on the same problems and the agreements advocated for their control.

As regards educational, informational, social and cultural aspects, the working documents of the Conference advocate international co-operation in order to keep the social diagnosis of environmental problems up to date; this implies, among other things, a large scale effort with reference to the exchange information. This aspect which keeps recurring as a fundamental need in all fields of work, undoubtedly ties in with other matters also of interest to Latin America in UNCTAD, where a good flow of information is also very important. Mention should also be made of the educational campaign which will be a result of the Stockholm Conference in order to meet the need to train specialists in environmental subjects and to organize the participation of the public, which is the foundation for the solution of environmental problems.

/Lastly, the



Lastly, the international organizational implications of environmental action stand out as being far-reaching since they will be the conditioning factor of the success which may be achieved in the international effort to protect the environment and in the reconciliation of the interests of different regions. A flexible and pragmatic attitude is advocated, which, while not overloading the existing international machinery, will co-ordinate it and guide it in terms of the new objective. Extra funds will be needed for this, and it is hoped that the developed countries will provide them. It will readily be appreciated that it is extremely important that Latin America should have clear ideas of its needs and proposals with regard to the problem of the environment so as to be able to put them forward effectively at the appropriate moment.

