

ECONOMIC COMMISSION FOR LATIN AMERICA

TRADE COMMITTEE

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STATEMENT MADE BY MR. RAUL PREBISCH, EXECUTIVE SECRETARY, AT THE FIRST PLENARY MEETING, ON 11 MAY 1959

First and foremost, I should like to add my expressions of gratitude to the Government of Panama to those already voiced on behalf of the United Nations by the Under-Secretary for Economic and Social Affairs, Mr. de Seynes; and I also wish to thank the Minister of Agriculture, Trade and Industry of Panama very sincerely for his words of encouragement to the ECLA secretariat.

Nor could I fail to take this opportunity of offering my grateful thanks to the Head of the delegation of Argentina for his heartening remarks about our work, and, lastly, to you, Mr. Chairman, my very great appreciation of all that you have been kind enough to say of ECLA's activities. And, although I may perhaps be slightly overstepping the proper bounds of an official of the secretariat, I should also like to express my deep satisfaction at seeing you take the Chair at a session of the Trade Committee which will indubitably be of far-reaching significance for Latin America.

The chairmanship of Mr. Garrido Torres might be described as a happy instance of historical continuity. It was he who, in company with other economists, launched, when the right moment came, the idea of the Latin American common market. He, among others, expounded it brilliantly not only in his own country, but in other circles on which the future of the idea would to some extent depend. I am confident that, as on previous occasions, Mr. Garrido Torres will discharge his responsibilities at this session with wisdom agreeably salted with wit.

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Since the first session of the Trade Committee, a series of important meetings have been held, the results of which will be considered on the present occasion. The Working Group on the Latin American Regional Market has met twice; the Central Banks Working Group held its second session at Rio de Janeiro to discuss the payments problem; and, under the auspices of ECLA, four series of consultations on trade policy have taken place, two with experts from the southern zone of South America and two with consultants from Colombia, Ecuador and Venezuela. All these meetings served the single purpose of clearing the way for definitive proposals in connexion with a multilateral payments mechanism and the common market of which such a mechanism is an essential part.

The consultants on trade policy from the southern-zone countries, at their second session, held recently in Santiago, Chile, drew up a draft agreement on a free-trade which, in my view, is technically excellent. The Governments concerned will not doubt take the opportunity afforded by the present contact with other Governments members of ECLA to explain the scope of this draft agreement. I only want to mention here one fact to which the secretariat attaches considerable importance in connexion with the work that is being done in this field. The draft agreement was dictated by the pressure of circumstances and the need to prevent trade among the southern-zone countries from being seriously affected by the repercussions of tariff and exchange reforms. Even so, the high technical quality to which I have pleasure in calling attention may perhaps make this instrument the initial step in a much more far-reaching course of action.

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In this connexion, the trade policy consultants who studied the draft agreement seem to me to have adopted a very happy decision when they resolved to suggest that their respective Governments should pronounce themselves convinced of the absolute need for this instrument to remain open to other countries which might desire to accede to it. Nor was this all. They also recommended - and this is a supremely important point - that the Governments in questions should declare their willingness to renegotiate the instrument, affording ample scope for all the other Latin American countries to participate in this new negotiation, once their Governments had reached agreement on the bases for the common market. And in taking this line, the consultants clearly demonstrated their conviction that such an instrument ought at no time to assume the character of a closed shop.

Similar considerations were discussed a very few days ago at the consultations on trade policy held at Caracas. This series of meetings, like those held by the southern-zone countries, also resulted from the need to devote immediate attention to certain trade problems. The consultants submitted a number of recommendations to their Governments, not only in relation to trade policy, but also with regard to the need for co-ordinating their economic programming efforts, as well as certain activities such as those connected with maritime and air transport. But, again like the southern-zone consultants, they placed on record their opinion that the results of any common market agreement which might be concerted should be incorporated into any temporary arrangements that circumstances might induce the authorities in their countries to decide upon and submitted a recommendation to their Governments to that effect.

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All this represents a full and satisfactory response to one of the major misgivings expressed by the Working Group on the Latin American Regional Market, both at Mexico and at its first session in Santiago; namely, that the aim should be for the Latin American common market to include the largest possible number of countries within the geographical orbit of Latin America. And I stress this point, because I consider it to be of supreme significance. It is not - happily for Latin America - that I have observed the slightest tendency towards exclusiveness. But what I have noted, on the other hand, is a certain doubt, a persistent doubt in some cases, as to whether the common market could or should be extended to the whole of Latin America. Such misgivings are engendered by a static conception of the common market problem. What is the point, it is often asked, of forming a common market in which the southern-zone countries join others like Mexico when there is no trade between them? But the very reason why there is little or no such trade is that in Latin America the outworn patterns of the nineteenth century still prevail. The creation of a common market at the present stage of energetic industrialization so necessary to the countries of Latin America, would aim precisely at breaking up those outworn patterns so that existing intra-regional commerce might be supplemented by trade in industrial products. Consequently, if a dynamic approach is adopted to the common market problem, it seems patent that, given the need to accelerate Latin America's industrialization process, all the countries, large, medium-sized and small, ought to join the market in order to endow it with the breadth, depth and efficacy which it would otherwise lack, if the Latin American countries continued to be grouped in a series of isolated sub-divisions.

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The second report of the Working Group, issued in Mexico, is a sequel to the first, and can only be interpreted in close relation to it, since for obvious reasons it was felt desirable not to revive at the second session topics which had already been dealt with at the first. The idea of discussing both documents together therefore seems to me a very happy one.

I do not regard the proposals made at Mexico as in any way final, and I should like to recall the terms in which the Chairman himself, as a member of the Working Group, stressed at the closing meeting that they represented a step forward, but not yet the decisive step. That would be impossible, so intricate and complex a field as will be studied at the present session. The greater the knowledge acquired concerning Latin America's real situation, and the more the common market problem is discussed with those qualified to express representative and authoritative opinions, the stronger does the conviction become that ideas which formerly might have seemed very well-grounded may lack foundation, or at least require adaptation to circumstances that at the moment when they were formulated were not clearly described. These two reports seem to me to provide sufficient data to afford the Governments assembled here an opportunity for thorough discussion of the problem, so that the secretariat may be given an indication of the lines on which it should proceed with the work. Not only will it be possible to establish guiding principles, but also to decide upon the forms to be assumed by the tasks that lie ahead. Perhaps the Governments represented on this Committee, after the next few days' discussions, will decide to maintain the working groups in which distinguished experts participate in a personal capacity. Or, again, the member Governments will perhaps consider that the time has already come to operate at governmental

level and to appoint a committee of Government experts, so that the work may be pursued in close contact with the authorities and with the representative economic forces of each of the countries concerned.

The foregoing is a question which I should like to take this opportunity of raising. In my opinion the Mexico bases are of considerable merit because of their lucidity and because of their concrete approach to the problem, while at the same time they make no claim to establish solutions too inflexible to be adapted to the unequal stages of economic development reached by the countries of Latin America. The point of departure is a simple and feasible idea. What Latin America needs during the first phase of its common market is a substantial reduction of tariff duties and, within a reasonable time-limit, the total abolition of all such restrictions as hamper the flow of trade.

It is therefore recommended that Governments should engaged to reduce and abolish restrictions, over a period of ten years, in such a way that the average level of customs duties should not exceed a certain figure, in relation to the total value of each country's imports. This involves applying the system of averages to determine the commitment to be undertaken by the contracting parties. This is no mere arithmetical device. It is, in my opinion, a happily-conceived formula whereby a series of difficulties that were cited as motives of concern at the sessions of the Working Group can be circumvented. The foremost of these is the problem of how to establish specific and clearly-defined inter-governmental commitments while at the same time ensuring that during this formative phase of the common market, the Governments concerned should be allowed all the freedom of movement they required not only to make requisite adjustments to the changing features of the

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real situation, but also to safeguard certain industries and activities from the disastrous consequences which sudden competition from imports might otherwise produce. Thus, under the system of averages, a Government could abolish or reduce duties on imports of certain goods of which the manufacture is not at present developed or established. This covers the whole immense range of capital goods, intermediate products, motor-vehicles and others which as yet are not produced or manufacture of which is barely beginning in Latin America. Those are the fields in which the Governments would be able, with great freedom of movement, to adopt extremely progressive decisions, while in respect of other goods, current production of which would be placed in a vulnerable position, the authorities could act with caution, leaving certain duties almost or entirely untouched, so as to prevent the common market from distorting the development of existing activities.

In other words, I believe that with the system of averages a solution has been found for a problem of vital importance - that of resolving upon a specific and clearly-defined commitment which at the same time would impart to Government action a great measure of flexibility in the application, through successive negotiations with other Governments, of the reductions which each one might deem it expedient to introduce, always providing that such reductions would ultimately bring duties down to the average agreed upon by the end of the period. A possible subject of discussion would be whether a single duty average in relation to the value of imports should be adopted for all trade items, or whether it would be better to establish three groups of goods, as recommended by the Working Group. I offer this suggestion not in a dogmatic spirit, but simply as a basis for discussion and a means of

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channelling or organizing it. Other variants might be introduced to improve upon or modify the Working Group's proposals, but the fundamental idea of a specific commitment seems to me of decisive importance for the success of the common market, since if such a commitment, however modest, did not exist from the outset, negotiations might be jeopardized inasmuch as they would be conducted at random, in pursuit of no definite course. The system of averages, on the other hand, would make it possible for negotiations to follow a clearly-marked path, towards a quantitative objective duly defined in the agreement signed by the Governments.

Another of the advantages of the procedure of reduction to an average is that it allows a differentiation to be established between those Latin American countries which are in the initial stage of development and those which have advanced somewhat farther. In this connexion, the meetings of experts at Santiago and Mexico did admirable work, in that they had the resolution and temerity to establish a principle entirely new in Latin America, namely, that equal treatment cannot be accorded where inequalities in trade and industrialization situations exist. And thus, guided by this consideration, the members of the Group are submitting to the Governments a proposal to the effect that the average level of duties which would constitute the target for the first ten years might be higher in countries at the initial stages of industrial development.

The question might be added, however, whether from the industrial standpoint such a procedure might not encourage the less developed countries to repeat the same mistakes that have been made by the larger countries of Latin America, and attempt to establish all industries in their own territory, regardless of  
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considerations of specialization and economic dimensions. If the smaller countries were accorded a higher level of protection than their bigger neighbours would they not be led into undesirable industrialization practices? Would not this encourage them to extend their production plans to all consumer goods and later to the anti-economic manufacture of capital goods? If the formula recommended by the Working Group had stopped short here, zeal for the welfare of the less developed countries would unquestionably have precipitated into forms of economic autarchy which are nowadays unacceptable; but the Group has wisely supplemented its first recommendation with another to which substantive importance must also be attributed. The aim of this second formula is to offer countries at the initial stages of development a further possibility, consisting in the special concessions granted by the larger to the less developed countries to stimulate the latter's industrialization process. As a result, the industrialization effort of a less advanced country, instead of being circumscribed by its own frontiers, would be able to take full advantage of the scope and opportunities offered by the markets of the bigger countries in order to sell such industrial exports as its lines of specialization permitted. In this way, every country in the initial stages of development would be in a position to choose between two alternatives, one bad and the other good. It could either endeavour to establish industries at any cost and in any order; or it could base its industrialization effort on a broadly selective criterion, so that, instead of attempting to produce all it consumed, it would conserve part of other countries' production in exchange for such agricultural and industrial goods as countries just beginning to develop could send to those at a more advanced stage.

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I emphasize the term "agricultural and industrial", because one of the points stressed by all the members of the Working Group has been the concept that industrialization in the less advanced countries is as important as or more important than that of the larger countries at the present stage of economic development, in that Latin America could not contemplate recurrence of the traditional phenomenon of the international division of labour which we were taught in our youth, and which relegated certain countries to the category of primary producers and assigned to others the privileged role of industrial producers.

This arbitrary casting of roles should on no account be repeated in Latin America, and the common market would constitute the only means whereby the less advanced countries could develop their industries along rational lines. Of course, the differential treatments suggested deprive the project of the charm of simplicity; but the fact is that as matters really stand such simplicity would be purchased at too high a cost. It would imply the reduction to a common denominator of differences which at the present moment cannot be reconciled. Such inter-country distinctions will necessarily have to be drawn in any common market programme if it is to work well in practice once it has become a reality. Nor does this apply only to the countries at the initial stages of development. There are undoubtedly other Latin American countries whose industrial sector is destined to develop vigorously in the course of the next few years; I have noted in these countries, however, a very grave apprehension lest the common market might frustrate their industrial development plans. In the countries concerned, owing to a particular set of circumstances, the high wage levels registered do not represent a high level

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of productivity. They are accompanied by a high cost of living; and this is the result of special circumstances, not of greater productivity. If the countries in questions were to join the common market on the same terms as the rest, they would almost certainly be unable to avoid distortion of their industrial development plans or to take due advantage of the opportunity of specialization in industrial exports which the common market would afford them. Why? Precisely, because of their heavy costs, deriving from high wages and the high cost of living.

For such countries to be enabled to join the common market, I believe it would also be necessary to devise formulae calculated to permit and encourage their accession. Obviously, the more distinctions are drawn, the more intricate and the less simple the apparatus will become. An effort will have to be made to introduce as few complications as possible, but some are bound to be entailed by the adaptation of the common market project to the widely differing circumstances characterizing the real state of affairs in Latin America. However, there is one over-riding principle to which absorption in these partial aspects should never be allowed to blind us; a general principle which should pervade every common market programme, and to which Mr. de Seynes referred in his address this morning - the principle of reciprocity. It was given clear expression by the Mexico Working Group in the declaration that no Latin American country ought to be able to derive more advantages from the common market than the rest. And it was reflected in the following specific formula: any country which, by virtue of the common market, and irrespective of situations previously existing, tended to show a persistent excess of exports over imports should adopt additional measures to reduce or abolish duties and

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restrictions, in order to allow the other Latin American countries a foothold in its own market for their primary or industrial exports.

This is not a principle of equilibrium. Numerous arguments might be adduced to show how absurd it would be to attempt to break down the concept of the international balance of payments into two sub-divisions, i.e., equilibrium among the Latin American countries on the one hand, and between them and the rest of the world on the other. There are elementary reasons for shunning such a procedure. It is not concern for the balance of payments that is implied in allusions to reciprocity, but anxiety to ensure all countries equal and positive opportunities of sharing in the benefits of the common market.

It should not be forgotten that the operation of common market will be mainly evidenced -- especially during its early days -- in a transformation of the traditional import substitution policy pursued in Latin America during the last 30 years. The common market will offer any given country a choice between continuing to substitute domestic production for imports within a watertight compartment, or sharing with other countries the task of industrial import substitution. And if this division of an arduous and increasingly difficult labour were not affected on bases of reciprocity, the common market would hamper the growth of those countries which were unable to contribute to its development through their own industrial export trade. If a country failed to find an outlet for its industrial production in the common market, it would be better advised to continue its industrialization process

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in a watertight compartment than to forgo that essential reciprocity. I therefore hope it will be possible to devise adequate formulae, thanks to which this principle will not be a mere abstract statement, but will be operative in practice, since otherwise the common market could not function satisfactorily.

It is clear from the foregoing that a dividing-line must be drawn between this concern for reciprocity and the motives on account of which a multilateral payments agreement is regarded as an essential part of any common market system in Latin America. In this connexion, too, I believe that positive strides were made at the two sessions of the Central Banks Working Group which, in compliance with the instructions of the Trade Committee, the ECLA secretariat organized at Montevideo and Rio de Janeiro, respectively. At the second of these sessions, mechanisms created at the first were perfected, with the result that a draft protocol was prepared, establishing, for the first time in Latin America, communication among the bilateral accounts of countries in the southern zone, so as to render balances transferable from one such account to another. We are well aware that the arrangement as it stands at present is modest in its scope, but, apart from solving certain problems, it will have considerable merit because of its experimental value. It may, I hope, serve to reveal the possibilities for the gradual loosening-up of the bilateral accounts régime and its ultimate transformation into a multilateral payments system, which will be the more efficient the greater the number of countries included and, therefore, the

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larger the volume of goods negotiated through such agreements. At the suggestion of the Central Banks Working Group, the secretariat has continued to study the prospects for the gradual evolution of the southern-zone bilateral régime towards a Latin American multilateral payments system in harmony with common market objectives; if the market is to develop smoothly, the elimination of payments difficulties is an essential requisite, and there will be no means of facilitating payments or compensation among the Latin American countries until intra-regional trade is energetically promoted. Herein lie two aspects of one and the same problem.

I have more than once laid stress on the fact that there is no simple solution where the common market is concerned. Unfortunately, we are not confronted with a problem that could be settled once and for all by means of a felicitous formula. It is our conviction that such a formula is beyond our reach; the utmost we might achieve would be a series of instruments, including one of a preferential nature to be applied in inter-Latin American trade, which would enable the Governments to progress little by little towards the attainment of the basic objective, namely, the common market. The use of such instruments by those not fully convinced of the vital needs of the common market would be foredoomed to failure; hence their application would have to be subordinated to the implementation of a policy which, it must be confessed from the outset, is extremely difficult to pursue. It will not be easy to bring the common market into operation; it will not be easy to establish a multilateral payments system in Latin America; neither will it be easy to

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adjust inter-Latin American trade relations to the region's trade relations with the other countries of the world, in such a way that the latter, far from being adversely affected, may actually be expanded in consequence of the existence of the Latin American common market, as we are sure will be the case.

But it would be a mistake to disregard one factor which is of fundamental importance at this stage of Latin America's economic development, characterized as it is by a weakening of the external forces which formerly stimulated Latin America's spontaneous growth, so that much of the impetus thus given in the past has now been lost. Latin America will not be able to continue developing spontaneously at the rate called for by the social requirements of economic development, by the need to raise the standard of living of the population as a whole. Consequently, the common market question is part of a serious problem with which the region is faced - that of deliberately and intelligently mustering the vital forces of Latin America, with clearly-defined aims and tenacity of purpose, in a co-ordinated endeavour to bring about a state of affairs in which a flourishing economy will generate its own development, a consummation not to be expected within the next few decades.