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Commodity problems and policies ▪ Trade in manufactures and semi-manufactures ▪ Impact of economic groupings of developed countries ▪ Financial resources for development ▪ The present international monetary situation and the reform of the international monetary system ▪

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CONTENTS

The Economic Bulletin for Latin America has been published by the secretariat of the Economic Commission for Latin America twice yearly since 1956. The essential purpose of this periodical is to provide a résumé of the economic situation of the region designed to supplement and bring up to date the information published in the Commission's annual economic surveys. Apart from this summary, which is to appear in every issue, special articles on different subjects related to the economy of Latin America are included, as well as informative and methodological notes.

The ECLA secretariat assumes entire responsibility for the *Bulletin.* Its content—intended for the information both of public officials and of the general reader—was not submitted to the Commission's member Governments before publication.

Since October 1958 the *Bulletin* has regularly included a Statistical Supplement. This subsequently became large enough to warrant separate publication, one issue being published in 1960, another in 1961 and two in 1962, each being bilingual with the corresponding table of contents. Since 1964, a new publication, the *Statistical Bulletin for Latin America,* has been issued twice a year, to provide the public with a regular flow of statistical data on economic matters.

EXPLANATION OF SYMBOLS

Three dots (...) indicate that data are not available or are not separately reported.

A dash (—) indicates that the amount is nil or negligible.

A minus sign (−300) indicates a deficit or a decrease.

A stroke (/) indicates a crop year or a fiscal year, e.g., 1954/55.

An asterisk (*) is used to indicate partially or totally estimated figures.

"Tons" and "dollars" are metric tons and United States dollars, respectively, unless otherwise stated.

Minor discrepancies in totals and percentages are due to rounding.

LATIN AMERICA AND THE THIRD SESSION OF UNCTAD

Ever since the preparatory stages of the first session of the United Nations Conference on Trade and Development, the secretariat of the Economic Commission for Latin America (ECLA) has co-operated with the Latin American countries in the study and analysis of the problems that are discussed in UNCTAD.

Several resolutions of the Commission have expressly requested the secretariat to provide such co-operation and have specified basic areas of trade and development which are of particular interest to the Latin American countries.

At its last session the Commission instructed the secretariat to adopt various measures at the regional level, in accordance with General Assembly resolution 2626 (XXV) laying down the International Development Strategy for the Second United Nations Development Decade, and recommended it to give "high priority to the questions that are most directly related to the topics to be discussed at the third session of UNCTAD, so that these studies provide more background material and technical criteria to support and harmonize the action of the Latin American countries in UNCTAD".

The secretariat of the Commission prepared a report on the main problems that were included in the agenda for the third session of UNCTAD (Santiago, Chile, April/May 1972). This report was presented at the meeting of the Special Committee on Latin American Co-ordination (CECLA) held at Santiago in October 1971. The revised version incorporating the comments and amendments suggested at this meeting was presented at the third session of UNCTAD.

Some of the main topics dealt with in that document are discussed in the present volume.

COMMODITY PROBLEMS AND POLICIES

A. GENERAL TRENDS OF WORLD TRADE

World exports during 1970 continued to expand at the same rapid pace as in recent years, despite the effect of certain adverse factors that gave rise to a fear that demand in the principal world markets might slacken. Although events in the monetary and trade spheres in mid-1971 have undoubtedly changed the context in which trade had hitherto been conducted, there are as yet not enough data available to evaluate their impact on individual countries or groups of countries. Consequently, the present examination of recent trends will generally cover the principal trends up to the end of 1970 and early 1971.

It should be noted firstly that the growth of world exports in 1970 followed the traditional growth model of the past two decades, which has the following main features: the highest growth rates are found in the developed countries; the most dynamic sector of trade is that of manufactures; and price fluctuations have a particularly strong impact on agricultural and mining products (which account for the lion's share of the developing countries' export earnings) and are generally the determining factor in the deterioration of the terms of trade between developing and developed countries.

The figures in table 1 show that the share of manufactures in world exports rose from 50 per cent in 1960 to 60 per cent in 1970, even though some commodities, notably non-ferrous metals, enjoyed relatively favourable trade conditions during the second half of the 1960s. The fact that world exports of manufactures grow more rapidly than commodity exports is attributable, as is well known, to a number of quite different factors, including structural changes in demand as incomes rise; technological progress which has stimulated the production of synthetics and substitutes for a number of natural products and has brought savings in the raw material inputs required to produce a given finished product; the liberalization of trade in manufactures among the developed countries, which at the same time continue to protect their domestic production of raw materials and maintain restrictions on imports from the developing countries; and the characteristic instability of markets for commodities, mainly in the form of frequent and wide-ranging price fluctuations.

These factors do not have exactly the same effects in the developed and the developing countries. For example, among the developed countries, exports by Japan and the European Economic Community (EEC) grew more rapidly than those of the United States and the European Free Trade Association (EFTA) (see table 2). Among the developing countries, exports from African and Asian countries grew more rapidly than exports by Latin American countries. As a result, Latin America's share in world trade is now much smaller than it was 20 years ago, not only because exports by the developed countries have grown so rapidly, but also because other developing regions have outpaced Latin America in export growth. In other words, the region's declining share in world trade is attributable, first to the fact that it plays little part in the trade in manufactures, and secondly to the fact that even in the export of commodities it is being overtaken by developed and other developing countries.

The figures given in table 3, which compares average annual values for 1961-1965 and 1966-1969 by exporting regions and groups of products, show the growth rates achieved between the two periods by each group of products and the percentage share of the different regions in world exports of each group of products. They indicate that the highest growth rate among commodities was achieved by non-ferrous metals (Division 68 of the Standard International Trade Classification—SITC), namely, a 75 per cent increase between the two periods, which to a large extent reflects price rises. Although the Latin American countries did increase their exports of non-ferrous metals, their share in the world total of exports of such metals fell slightly between 1961-1965 and 1966-1969. This, coupled with the fact that non-ferrous metals account for only a small

Table 1

WORLD EXPORTS BY GROUPS OF PRODUCTS

(Thousands of millions of dollars at current prices)

	1960	*1967*	*1968*	*1969*	*1970*
TOTAL	*128.3*	*214.7*	*239.6*	*273.3*	*312.5*
Agricultural products	40.0	52.2	53.8	48.4	64.6
Mining products[a]	21.4	35.9	40.6	44.5	51.1
Manufactured products	64.0	122.9	140.4	164.5	189.3
Indexes (1960=100):					
Current value: total		*167*	*187*	*213*	*243*
Agricultural products		130	134	146	161
Mining products		168	190	208	239
Manufactured products		192	219	257	296
Unit value: total		*105*	*104*	*108*	*114*
Agricultural products		100	99	104	106
Mining products		109	110	115	120
Manufactured products		106	106	108	116
Volume: total		*159*	*180*	*197*	*214*
Agricultural products		130	136	141	152
Mining products		153	172	181	198
Manufactured products		181	208	238	255

SOURCE: Figures taken from GATT, *International Trade 1970*, Geneva, 1971.

[a] This group includes fuels and non-ferrous metals. See appendix to *International Trade 1970*, p. 214, which gives sources and notes.

Table 2

WORLD EXPORTS, BY SELECTED REGIONS AND COUNTRIES

(Thousands of millions of dollars)

	1960	*1967*	*1968*	*1969*	*1970*	*Annual growth rate 1960-1970*
WORLD TOTAL	*128.0*	*213.0*	*237.5*	*271.0*	*309.6*	*9.2*
Developed countries	85.7	149.6	168.2	193.7	223.9	10.1
United States	20.4	31.2	34.2	37.5	42.6	7.6
EEC	29.7	56.1	64.2	75.7	88.5	11.5
EFTA	18.5	28.7	31.1	35.7	40.2	8.1
Japan	4.1	10.4	13.0	16.0	19.3	16.7
Developing countries	27.3	40.3	44.1	49.4	54.7	7.2
Latin America	8.6	11.7	12.2	13.4	14.9	5.7
Africa	5.3	8.4	9.7	11.3	12.5	9.0
Asia	11.9	18.0	19.9	22.3	24.6	7.5
Soviet Union and Eastern Europe	13.0	23.1	25.2	27.9	31.0	9.1
	Percentages of the total					
Developed countries	67.0	70.2	70.8	71.5	72.3	
United States	15.9	14.6	14.4	13.8	13.8	
EEC	23.2	26.3	27.0	27.9	28.6	
EFTA	14.4	13.5	13.1	13.2	13.0	
Japan	3.2	4.9	5.5	5.9	6.2	
Developing countries	21.3	18.9	18.6	18.2	17.7	
Latin America	6.7	5.5	5.1	4.9	4.8	
Africa	4.1	3.9	4.1	4.2	4.0	
Asia	9.3	8.4	8.4	8.2	7.9	
Soviet Union and Eastern Europe	10.2	10.8	10.6	10.3	10.0	

SOURCE: Absolute figures taken from United Nations, *Monthly Bulletin of Statistics*.

part of the region's total exports, explains why the export boom for non-ferrous metals had relatively little impact on the over-all growth rate of Latin America's exports. Similarly, Latin America did not participate fully in the upsurge in world exports of fuels (Section 3 of the SITC), which expanded by 59 per cent between the two periods. Latin America's exports of fuels grew much less rapidly, and hence not only did its share in the world market for fuels decline (from 16.5 to 13.4 per cent), but also its over-all export figures were depressed because of the important place occupied by petroleum and petroleum products in the total.

World exports of food-stuffs, beverages and tobacco, and also of primary products (excluding fuels) expanded much less rapidly than exports of non-ferrous metals and fuels. In the case of these products, too, Latin America's exports did not manage to keep pace with the trend of world exports and thus slightly lost ground. Although the food-stuffs and beverages group includes two commodities that carry appreciable weight in the region's exports (coffee and bananas), here too Latin America's share in world exports declined. Indeed, Latin America lost ground in the world market in each of the four main commodity groups, which account for between 93 and 95 per cent of the region's total exports (see table 3). In contrast, while the Latin American countries and the other developing countries are losing ground as suppliers of primary commodities (with the exception of fuels), the developed countries are correspondingly increasing their already large share of the world market. Although the composition of exports is not the same in each group of countries, and although

Table 3

WORLD EXPORTS, BY GROUPS OF PRODUCTS AND EXPORTING AREAS

SITC Section	*Years*	*World total (millions of dollars)*	*Percentage share of each exporting area*			
			Developing countries		*Developed countries*	*Socialist countries*[a]
			Latin America	*Other*		
0 and 1	1961-1965[b]	27,218	15.6	18.7	56.2	9.5
	1966-1969[b]	34,385	15.1	16.8	57.8	10.3
2 and 4	1961-1965	22,740	8.7	25.2	54.6	11.5
	1966-1969	27,132	8.4	23.3	56.2	12.1
3	1961-1965	7,072	16.5	44.9	25.4	13.2
	1966-1969	11,248	13.4	51.8	24.0	10.8
Division 68	1961-1965	5,209	12.1	17.6	62.3	8.0
	1966-1969	9,103	11.6	19.0	62.0	7.4
Total commodities	1961-1965	70,633	13.3	26.5	49.2	11.0
	1966-1969	92,318	12.4	27.2	49.8	10.6
5	1961-1965	9,788	1.4	2.8	86.6	9.2
	1966-1969	16,208	1.4	2.9	87.8	7.9
6 and 8 (excluding 68)	1961-1965	37,521	0.6	6.7	79.1	13.6
	1966-1969	54,380	0.9	8.5	83.7	6.9
7	1961-1965	37,284	0.1	0.7	86.0	13.2
	1966-1969	62,773	0.2	0.9	86.9	12.0
Total manufactured products	1961-1965	84,593	0.5	3.6	83.0	12.9
	1966-1969	133,361	0.6	4.3	85.7	9.4
Over-all total 0-9	1961-1965	157,442	6.3	13.9	67.9	11.9
	1966-1969	232,360	5.3	13.3	70.1	11.3

SOURCE: United Nations, *Monthly Bulletin of Statistics.*

[a] Includes all the countries with centrally planned economies in Asia and Eastern Europe.

[b] Annual averages.

many developing countries' exports are dominated by tropical-zone products (for which world demand is sluggish), it cannot be overlooked that among the most influential factors in raising the share of the developed countries as suppliers of the world market are their agricultural policies, which are markedly protectionist, their policies of direct or indirect export subsidies, their systems for the disposal of surpluses and stocks, and their measures to stimulate the production of goods which compete with and replace a number of natural products.

B. LATIN AMERICAN EXPORT TRENDS

In 1969 and 1970, the value of Latin America's total exports increased in absolute terms by the largest amounts recorded during the whole decade. For the region as a whole, the average annual rate of growth between 1960 and 1970 was 5.3 per cent, but the figure for the period 1960-1968 was only 4.4 per cent (see table 4). There are big differences between countries. Some countries, particularly those which export a substantial amount of non-ferrous metals (Bolivia, Chile and Peru), Panama and three of the Central American countries, achieved annual growth rates that compare favourably with, or even exceed, the average annual rate for world exports (9.2 per cent in the period 1960-1970). Among the three countries carrying most economic weight in the region, Brazil's exports grew at an annual rate of 8 per cent, while those of Mexico and Argentina grew somewhat more slowly.

Table 4

LATIN AMERICA: VALUE OF EXPORTS, BY COUNTRIES

(Millions of dollars f.o.b.)

	1961-1965	*1966-1969*	*1968*	*1969*	*1970*	*Annual growth rate 1960-1970*
Argentina	1,290	1,509	1,368	1,612	1,773	5.1
Bolivia	77	152	153	182		15.2[a]
Brazil	1,410	1,897	1,881	2,311	2,738	8.0
Chile	579	948	941	1,068		9.0[a]
Colombia	486	546	558	608	674	3.7
Ecuador	151	194	208	183	218	4.2
Mexico	970	1,258	1,258	1,430	1,402	6.3
Paraguay	42	49	48	51	64	9.0
Peru	581	816	865	864	1,044	9.3
Uruguay	173	181	179	200	233	6.1
Venezuela	2,617	2,593	2,560	2,547	2,638	0.8
LAFTA	8,376	10,143	10,019	11,036		
Costa Rica	100	161	171	193	229	10.3
El Salvador	155	202	212	202	228	6.9
Guatemala	148	231	227	262	298	9.8
Honduras	92	164	183	169	171	10.5
Nicaragua	101	149	157	155		12.0[a]
CACM	596	907	950	981		
Cuba	618	651[b]	650	...	...	...
Dominican Republic	159	160	164	184	214	2.0
Panama	57	99	100	113	111	14.8
TOTAL	*13,010*	*14,390*[b]	*5.3*	*9,830*	*11,982*	*11,900*
Latin America excluding Venezuela	*10,463*	*11,752*[b]	*6.7*	*7,213*	*9,389*	*9,340*

SOURCE: United Nations, *Monthly Bulletin of Statistics*.

[a] 1960-1969.

[b] Preliminary. The sources show small discrepancies owing to the fact that the figures for several countries are preliminary.

Venezuela's exports displayed the most unfavourable evolution in the whole region, despite the fact that they largely consist of petroleum and petroleum products, which are among the products for which world demand is growing most rapidly. The average annual value of Venezuela's exports in 1966-1969 was slightly lower than in 1961-1965: quite the opposite of the trend in the oil-exporting developing countries outside the region. In world trade as a whole, as noted earlier, exports of petroleum and petroleum products achieved one of the highest growth rates during the 1960s. In Venezuela, production increased at a rate well below that of world production, and the value of the country's exports was affected by the steady decline in actual sales prices for crude petroleum and petroleum products on the world market.[1] The slow growth of petroleum production in Venezuela is probably attributable to a wide variety of factors, including decisions made by producer companies in the light of their interests in other areas, differences in systems of taxation (particularly in relation to the Middle East countries), the impact of quantitative restrictions by the United States on imports of crude petroleum and petroleum products,[2] and the emergence of new producing areas in North Africa with a comparative advantage as regards supplying the European market. In this connexion, it may be noted that, despite the quantitative restrictions in the United States market, Venezuela's exports to that market are the only exports that are growing,[3] within the limitations of the quota system, thus making up for the fall in exports to the EEC and EFTA countries.

Some of the factors that adversely affected Venezuela's petroleum exports during most of the 1960s started to improve in early 1970: in particular, world demand pushed up, and subsequently the Organization of Petroleum Exporting Countries (OPEC), of which Venezuela is a member, agreed upon and implemented measures aimed at initiating new negotiations with the foreign producer companies in each country to secure better prices and also other arrangements regarding taxation, exemptions, etc. The results of the negotiations carried on by the OPEC countries give reason to expect a substantial improvement in the revenue of the oil exporting countries, including Venezuela.

The countries producing and exporting non-ferrous metals (Bolivia, Chile, Peru and to some extent Mexico) had relatively favourable markets from 1964 onwards, when the prices for copper, tin, lead and zinc began an upward trend after having declined to a varying extent during the previous four or five years. The special features of the world markets for each of these products meant that prices did not improve uniformly for all. For example, copper prices rose less during 1964 and 1965 than prices for the other three metals, but between 1966 and 1968 tin, lead and zinc lost some of the price increases of 1964 and 1965, while copper prices continued to rise and reached their highest point ever in 1969. After reaching this peak, however, copper prices then turned downward, while in the same year prices for the other three metals appeared to be returning to their 1965 levels. At all events, while these fluctuations in world prices for non-ferrous metals were in line with the traditional way that commodity markets operate, they ranged within a generally higher band than in the second half of the 1950s. The annual growth rates of exports by Bolivia (15.2 per cent), Chile (9 per cent) and Peru (9.3 per cent) between 1960 and 1970 were attributable in the main to the recent relatively favourable world market trends for copper, tin, lead and zinc, of which these countries are the main exporters in Latin America.

While it is not possible to summarize in the present study all the factors affecting export growth in each Latin American country during the 1960s,[4] it is possible to give a general idea of the trends of world prices for the region's principal export commodities, since these prices are often the most important variable in determining each country's export earnings.

The price indexes given in table 5 show annual average world prices for a group of commodities that account for more than two thirds of the region's total exports. Fluctuations from year to year in the total over-all index for these commodities (excluding petroleum and petroleum products) during the period 1960-1968 were not very pronounced, but the

[1] Table 5 gives price indexes for Latin America's major export products.

[2] The actual impact of the restrictions varies depending on the programmes of the producer companies in the United States, since it is they who are subject to the quota system and not the exporting countries.

[3] Including exports of crude to Canada and Trinidad and Tobago which are generally destined, after refining, for the United States market.

[4] This kind of analysis is given regularly in the *Economic Survey of Latin America,* which the Economic Commission for Latin America issues each year.

Table 5

PRICE INDEXES OF MAJOR LATIN AMERICAN EXPORTS ON THE WORLD MARKET

(1963=100)

Commodity	*1960*	*1961*	*1962*	*1964*	*1965*	*1966*	*1967*	*1968*	*1969*	*1970*
FOOD, BEVERAGES AND TOBACCO	*92*	*89*	*87*	*108*	*100*	*96*	*92*	*90*	*103*	*118*
Tropical zone	*91*	*88*	*85*	*107*	*97*	*93*	*89*	*90*	*100*	*119*
Sugar[a]	36	34	35	69	25	22	24	25	41	44
[b]	77	77	79	84	83	85	89	92	96	99
Bananas	95	95	95	90	96	92	93	89	88	96
Cocoa	101	85	80	87	64	87	100	124	164	122
Coffee[c]	107	106	100	137	131	120	111	110	120	160
[d]	113	110	103	123	123	120	106	108	114	142
Tobacco	82	81	84	62	79	...	...	...	...	...
Temperate zone	*99*	*98*	*99*	*111*	*116*	*114*	*112*	*96*	*120*	*105*
Beef	107	101	106	122	133	125	121	...	...	...
Maize	91	90	88	101	108	108	101	94	100	112
Wheat	96	100	100	105	98	101	107	98	98	98
AGRICULTURAL RAW MATERIALS	*101*	*101*	*98*	*105*	*101*	*102*	*95*	*97*	*97*	*101*
Linseed oil	121	133	120	112	100	91	98	111	112	107
Cotton[e]	100	103	100	101	98	96	105	106	97	105
[f]	99	106	101	99	99	92	100	102	88	100
[g]	119	110	102	117	105	109	118	127	117	123
Hides	130	121	117	106	121	165	121	129	148	144
Quebracho extract	92	78	89	105	115	116	115	122	135	151
Fish meal	77	87	98	106	128	123	107	111	133	148
Wool[h]	86	79	87	111	83	94	83	72	74	64
[i]	99	95	82	110	90	84	56	55	59	59
METALS	*107*	*104*	*103*	*117*	*129*	*152*	*142*	*148*	*174*	*172*
Copper	105	98	100	118	136	186	170	183	227	220
Tin	88	98	99	136	155	142	135	125	137	144
Iron ore	111	115	114	96	97	98	98	98	98	101
Lead	114	101	89	159	182	150	131	138	166	171
Zinc	116	101	88	154	147	133	131	124	135	138
PETROLEUM AND PETROLEUM PRODUCTS	*105*	*105*	*102*	*94*	*93*	*92*	*91*	*92*	*90*	*89*
Crude	104	104	102	94	94	92	91	91	...	...
Petroleum products	108	107	103	93	92	91	91	94	...	...
TOTAL, *excluding petroleum and petroleum products*	***96***	***94***	***95***	***109***	***105***	***108***	***102***	***103***	***114***	***125***
TOTAL *21 products*	***99***	***98***	***97***	***104***	***101***	***102***	***98***	***99***	***106***	***113***

Commodity	1969				1970				1971		
	I	*II*	*III*	*IV*	*I*	*II*	*III*	*IV*	*I*	*II*	*III*
FOOD, BEVERAGES AND TOBACCO	*98*	*99*	*101*	*113*	*116*	*118*	*119*	*119*	*113*	*105*	*104*
Tropical zone	*95*	*95*	*97*	*111*	*118*	*119*	*120*	*118*	*114*	*103*	*104*
Sugar[a]	40	46	41	38	39	44	46	48	57	52	49
[b]	94	96	95	97	97	99	100	98	103	103	105
Bananas	86	99	91	76	106	108	88	83	98	108	104
Cocoa	164	165	166	162	125	109	131	122	106	98	100
Coffee[c]	112	109	116	141	154	158	164	164	147	126	125
[d]	108	102	107	138	146	145	141	137	128	122	122
Tobacco	...	...	...	...	...	...	...	...	...	...	...
Temperate zone	*117*	*122*	*132*	*129*	*97*	*102*	*110*	*121*	*105*	*102*	*101*
Beef	142	151	146	150	...	...	...	...	...	...	...
Maize	92	101	111	95	98	108	120	121	116	109	108
Wheat	101	96	...	...	97	96	100	...	95	95	95
AGRICULTURAL RAW MATERIALS	*96*	*97*	*96*	*99*	*100*	*101*	*102*	*102*	*104*	*107*	*111*
Linseed oil	115	108	115	111	107	109	105	106	98	88	90
Cotton[e]	97	97	94	100	101	103	106	110	113	117	125
[f]	88	89	87	90	93	100	103	110	113	120	125
[g]	120	115	114	...	124	125	125	120	122	123	123
Hides	141	149	149	149	147	148	139	141	152	168	168
Quebracho extract	132	136	134	140	145	151	153	155	163	171	171
Fish meal	116	134	131	150	150	155	139	149	146	138	140
Wool[h]	76	76	76	70	66	66	65	58	56	55	55
[i]	59	59	59	58	59	60	61	56	57	62	64
METALS	*157*	*170*	*182*	*187*	*195*	*187*	*162*	*145*	*140*	*151*	*146*
Copper	198	221	240	247	261	248	201	170	164	179	170
Tin	129	134	138	146	149	146	141	141	137	138	134
Iron ore	97	98	98	98	100	99	102	103	97	107	108
Lead	147	159	177	180	187	177	163	158	149	150	141
Zinc	127	131	138	145	139	136	139	136	130	136	145
PETROLEUM AND PETROLEUM PRODUCTS	...	...	...	...	...	...	...	...	...	...	...
TOTAL, *excluding petroleum and petroleum products*	*109*	*112*	*116*	*125*	*129*	*129*	*124*	*121*	*116*	*115*	*114*
TOTAL *21 products*	...	...	...	...	...	...	...	...	...	...	...

SOURCE: ECLA, on the basis of official statistics.
[a] Excludes exports to the United States.
[b] Exports to the United States.
[c] Santos (Brazil).
[d] Manizales (Colombia).
[e] Matamoros (Mexico).
[f] São Paulo (Brazil).
[g] Lima (Peru).
[h] Montevideo (Uruguay).
[i] Buenos Aires (Argentina).

indexes for individual commodities usually show wide variations from one year to the next. In 1969 and again in 1970 the over-all index rose to its highest point since 1960, because not only did copper prices rise, but prices for the other non-ferrous metals (tin, lead and zinc) also made a recovery, added to which prices rose for coffee, cocoa, beef, and fish flour, while free market prices for sugar began to recover. By the middle of 1971, however, some of these price rises had disappeared: coffee prices were falling back to the 1966 levels; cocoa prices had already dropped below the 1963 level; and copper prices were steadily falling. If petroleum and petroleum products are left out of account, it seems very likely that the over-all index for 1971 will be lower than for 1970.

The trend of the over-all price index for Latin American commodities during the 1960s is reflected in the unit value indexes for the region's total exports. Table 6 gives indexes of the unit values of Latin American exports and imports, as a means of showing the trend of the terms of trade. As can be seen, the unit value indexes for total exports (particularly the index that excludes petroleum) improved substantially from 1964 onwards. Since one country is responsible for most of the petroleum exports, it can be considered that the unit value index of exports excluding petroleum gives a fairly reasonable picture of what happened in the rest of the Latin American countries as a whole, namely, that average export values improved and, although dipping slightly in some years, from 1964 onwards generally remained above previous levels. Over the same period, however, the unit value of imports also rose steadily, with the result that the terms of trade during 1964-1970, without being completely unfavourable, were not as positive a factor as might have been expected given the favourable situation of the world commodity market. Thus, for example, the improvement in the terms of trade in 1964 was gradually whittled away in succeeding years, until by 1967 the situation was the same as it had been in 1963, the base year of the table. In 1969, and particularly in 1970, when the unit value of exports reached its highest level, the unit value of imports rose sharply and thus cancelled out a substantial part of the advantages that Latin American exporters might have obtained. Even though the terms of trade index excluding petroleum is higher for 1970 than in the immediately preceding years, the fact that this is only a temporary state of affairs is clear from the indexes for the last two quarters of 1970 and the first two quarters of 1971, which show the unit value of imports rising and the unit value of exports falling. By the end of the first quarter of 1971, the terms of trade had lost all the gains of the previous year and had dropped below 1960 levels.

1. *The trends in the main commodities*

In view of the relative decline in Latin America's share of the world commodity export market, it may be of value to take a close look at the trends in the production and export of the region's staple products in order to establish the facts of the situation without, however, examining in depth the domestic or external causes that may have been wholly or partly responsible for the particular trend in each product.

(a) *Sugar*

World production of sugar has risen 95 per cent over the past 20 years. During this time, Latin American production went up by 61 per cent and that of the rest of the world by 111 per cent (see table 7). Though the region's over-all share in world production dropped, there were big differences between individual countries. First of all, Cuba's production remained more or less stagnant during the whole period in question, except for the 1969/1970 crop year, when output soared to the unprecedented figure of 9.4 million short tons compared with 5.2 and 5.5 millions for the two previous years; the average for the three years, however, was barely higher than at the beginning of the 1950s, although it did represent a significant recovery from the serious decline that had occurred in the early 1960s. At all events, Cuba's share in world production declined considerably during the last decade and is still low at the beginning of the 1970s, since it has not yet managed to exceed the production level of the 1950s. In the other Latin American countries, by contrast, whose total joint output 20 years ago was not as high as that of Cuba, sugar production has been booming since 1961, partly as a result of the changes in trading patterns set off by the United States embargo on trade with Cuba. Latin American sugar exports between 1951 and 1953, other than those from Cuba, came mostly from the Dominican Republic, Mexico, Peru and, to a lesser extent, Brazil. At the time, Cuba provided 3.2 million tons out of a total of 3.5 million tons which the United States imported

Table 6

LATIN AMERICA: INDEXES OF THE UNIT VALUE OF EXPORTS AND IMPORTS AND OF TERMS OF TRADE

(1963=100)

Year	Unit value of exports: Total	Unit value of exports: Excluding petroleum	Unit value of imports	Terms of trade: Total	Terms of trade: Excluding petroleum
1960	97	96	100	97	96
1961	96	94	100	95	93
1962	95	93	103	92	90
1963	100	100	100	100	100
1964	107	110	101	106	109
1965	106	109	104	103	105
1966	108	111	104	103	107
1967	105	108	106	100	102
1968	106	109	107	99	102
1969	109	114	109	100	104
1970	115	122	114	101	107
1970 I	115	122	113	102	108
II	117	123	114	102	107
III	119	123	114	105	108
IV	113	120	115	98	104
1971 I	108	111	118	91	94
II	108	111	119	91	94

SOURCE: United Nations, *Monthly Bulletin of Statistics*, January 1972.

from Latin America. When Cuba's quota on the United States market was cancelled, part of it went to North America's own producers, who increased their share of domestic supply, while the rest was divided among various Latin American exporters, including countries that had hitherto had no preferential access to the market. The price difference that has normally existed between sugar exported to the United States under the import quota system and that sold on the free market was a big incentive for Latin American producers and explains the rapid growth in the production and exports of certain countries, particularly Brazil and Mexico, as well as of a group of countries (including Argentina, Colombia, Ecuador and the Central American countries) that had not previously been exporters at all or, at most, only marginally. Since, therefore, the decline in Cuba's exports has been offset by expansion of the exports of other Latin American countries, the region as a whole has managed to retain its large share of world sugar exports (see table 8).

(b) *Cocoa*

World cocoa production has risen 81 per cent over the past 20 years, primarily as a result of increased production by Africa. The fact that the increase in Latin American production was barely 43 per cent was mainly due to the fluctuations in the output of Brazil, the region's largest producer. Brazil's average annual output between 1951/1952 and 1953/1954 was 119,000 long tons, which was less than that of the three previous years, when the average was 148,000 long tons; similarly, the average of 117,000 long tons for 1961/1962 represented another severe decline in production, since the average for the period 1957/1958 to 1959/1960 had been 178,000 long tons. The average of 167,000 long tons for the three-year period 1967/1968–1969/1970 does not represent any real increase, since it is lower than that for the end of the 1950s. Even the figures of the period 1969/1970–1970/1971, which seem at first sight to indicate an upswing in production, had already been equalled in 1959/1960 with an output of 198,000 long tons. Consequently, the percentage increase in Brazilian production that is given in table 9 is strictly relative, since a comparison with earlier periods gives a totally different picture (see table 9).[5]

[5] If the average annual production figures for 1948/1949 to 1950/1951 (148,000 long tons) are compared with those for 1968/1969 to 1970/1971 (181,000 long tons), the total increase in Brazilian production is 22 per cent.

Table 7

CENTRIFUGAL SUGAR: WORLD AND LATIN AMERICAN PRODUCTION

(Thousands of short tons of unrefined sugar)

	1951/1952-1953/1954	*1961/1962-1963/1964*	*1967/1968-1969/1970*	*1969/1970*	*1970/1971*	*Percentage increase between 1951/1952-1953/1954 and 1967/1968-1969/1970*
Argentina	748	923	970	1,059	1,061	30
Brazil	2,112	3,710	4,930	5,068	5,987	133
Mexico	893	1,871	2,624	2,587	2,746	194
Peru	630	874	811	870	942	29
Dominican Republic	672	919	943	1,118	1,200	40
Other Latin American countries	647	1,629	2,434	2,374	4,337	276
TOTAL	*5,702*	*9,926*	*12,694*	*13,017*	*16,213*	*123*
Cuba	6,374	4,506	6,700	9,400	6,500	5
TOTAL *for Latin America*	*12,076*	*14,432*	*19,394*	*22,417*	*22,713*	*61*
WORLD TOTAL	*38,777*	*57,101*	*75,716*	*79,311*	*78,689*	*95*
Percentage of world total:						
Cuba	16.4	7.9	8.8	11.4	8.3	
Rest of Latin America	14.7	17.4	16.8	17.0	20.7	
TOTAL *for Latin America*	*31.1*	*25.3*	*25.6*	*28.4*	*29.0*	

SOURCE: United States Department of Agriculture, *World Agricultural Production and Trade* (various issues).

Table 8

CENTRIFUGAL SUGAR: WORLD AND LATIN AMERICAN EXPORTS

(Thousands of tons of unrefined sugar)

	1951-1953	*1961-1963*	*1967-1969*	*1969*	*1970*	*Percentage increase between 1951-1953 and 1967-1969*
Argentina	—	186	85	58	121	—
Brazil	103	570	1,047	1,061	1,130	919
Mexico	23	448	591	625	612	2,515
Peru	325	498	386	268	403	19
Dominican Republic	528	770	634	636	793	20
Other Latin American countries	72	278	849	954	1,496	1,086
TOTAL	*1,049*	*2,749*	*3,627*	*3,603*	*4,555*	*245*
Cuba	5,322	5,022	5,031	4,799	6,906	−6
TOTAL *for Latin America*	*6,371*	*7,771*	*8,658*	*8,402*	*11,461*	*36*
WORLD TOTAL	*13,517*	*17,974*	*19,478*	*18,543*	*21,676*	*44*
Percentage of world total:						
Cuba	39.3	33.5	25.9	25.9	31.9	
Rest of Latin America	7.8	15.3	18.6	19.4	21.0	
TOTAL *for Latin America*	*47.1*	*48.8*	*44.5*	*45.3*	*52.8*	

SOURCE: International Sugar Council, *Statistical Bulletin.*

Table 9

COCOA BEANS: WORLD AND LATIN AMERICAN PRODUCTION

(Thousands of long tons)

	1951/1952-1953/1954	1961/1962-1963/1964	1967/1968-1969/1970	1969/1970	1970/1971	Percentage increase between 1951/1952-1953/1954 and 1967/1968-1969/1970
Brazil	119	117	167	197	183	40
Colombia	15	19	18	19	21	20
Ecuador	26	37	58	54	60	123
Dominican Republic	33	37	31	42	25	−6
Venezuela	18	20	24	24	25	33
Other Latin American countries	30	47	45	41	40	50
TOTAL *for Latin America*	*241*	*277*	*345*	*385*	*354*	*43*
Africa	474	853	938	998	1,116	98
WORLD TOTAL	*737*	*1,167*	*1,330*	*1,423*	*1,517*	*81*
Percentage of world total:						
Latin America	33	24	26	25	23	
Africa	64	73	71	71	74	

SOURCE: Gill and Duffus, *Cocoa Market Report* (London).

Other Latin American countries also experienced varying degrees of fluctuations in production, with normal crops in some years and severe reductions in others; the country least affected by these variations was probably Ecuador, whose output in recent years has grown rather more steadily.

Unlike Latin America, and although they too have experienced considerable fluctuations, the African countries have made great strides in production, most likely because they have been more successful in wiping out crop pests and diseases, which are the major causes of drops in production. The average production for the three-year period 1967/1968–1969/1970 (938,000 long tons) is not the highest recorded in Africa, as it was exceeded in the period 1964/1965–1966/1967, when production reached 989,000 long tons per year. The excess of production over current demand during the latter period brought about the most serious crisis in cocoa prices on the international market. Of all the commodities exported by Latin America, few suffer from such notorious price instability as cocoa beans, both because of the tremendous variations in world production and because of the system of marketing in the exporter countries. Hence the importance attached to providing for a buffer stock in the international cocoa agreement that has been under negotiation for many years.

The trend in world exports of cocoa beans has more or less followed the pattern of production. While Latin America's share of world production dropped from 33 to 26 per cent during the period under consideration, its share of world exports fell from 23 to 20 per cent. The region's declining share might well dwindle further in future because of the levelling off or decrease in long-term production that certain small Latin American producers are experiencing (see table 10).

(c) *Coffee*

Latin America's share in the world production and export of coffee has undergone a marked decline over the past 20 years, largely because of trends in Brazil and Colombia. In the period 1951–1953, the exportable production of these two countries amounted to 63 per cent of world production, a further 18 per cent of which was provided by the other Latin American countries, so that the region as a whole was supplying over four fifths of the world's exportable production. The rapid expansion of African production during the

Table 10

COCOA BEANS: WORLD AND LATIN AMERICAN EXPORTS

(Thousands of long tons)

	1951-1953	*1961-1963*	*1968-1970*	*1969*	*1970*	*Percentage increase between 1951-1953 and 1968-1970*
Brazil	86	75	104	118	118	21
Ecuador	23	33	44	32	36	91
Dominican Republic	23	18	28	25	34	22
Venezuela	15	11	12	10	11	−20
Other Latin American countries	8	23	19	21	16	137
TOTAL *for Latin America*	*156*	*159*	*207*	*206*	*215*	*33*
Africa	487	821	796	740	844	63
WORLD TOTAL	*666*	*1,014*	*1,037*	*982*	*1,094*	*56*
Percentage of world total:						
Latin America	23	16	20	21	20	
Africa	73	81	77	75	77	

SOURCE: Gill and Duffus, *Cocoa Statistics* (London, July 1971).

1950s, however, changed the whole picture. By the period 1961–1963, the exportable production of African countries had risen 168 per cent compared with 1951–1953, whereas the corresponding increase was only 58 per cent for Brazil, 19 per cent for Colombia and 61 per cent for the rest of Latin America. Some of these trends became even more marked from 1961–1963 onwards: Brazilian coffee growers in particular suffered severe losses due to frost in several seasons and the growth rate of production declined elsewhere in Latin America. While the share of African countries in world exportable production rose to 41 per cent between 1968 and 1970, that of Latin America fell to 52 per cent. It should be borne in mind, in this connexion, that between 1957 and 1963 efforts to stabilize the world coffee market covered only Latin American countries and it was not until the negotiations of the international coffee agreement in 1964 that the African producers and the major importing countries were also brought in.

Though exports tend very much to follow the same trends as production, Brazilian exports are not showing the same strong annual fluctuations as before, thanks to the stocks accumulated in certain years, which make it possible to compensate for low production in others. Exports from Brazil and Colombia nonetheless rose by a bare 17 and 19 per cent respectively between 1951–1953 and 1968–1970, which goes to show that these are the two countries most affected, either for natural causes or as a result of trade control measures, by the attempt to stabilize the world coffee market and prevent the discrepancy between world supply and demand and the accumulation of stocks from having still more disruptive effects on prices. Excluding Brazil and Colombia, Latin American exports rose by 75 per cent over the period in question, while those of African countries rose by 225 per cent (see table 11).

These differences show that the African countries continued to increase their share of the world coffee market also during the period after the international coffee agreement came into effect. Thus, between 1961–1963 and 1968–1970, Latin America's exports rose by 2.9 million 60-kg. bags but African exports rose by 4.3 million (see table 12).

(d) *Wheat*

The share of Latin America in world wheat production is very small, and is decreasing, despite the fact that Argentina, the main producer in the region (and the only exporter), has managed to keep a share of between 4 and 6 per cent of world exports (see table 13).

Table 11

COFFEE: WORLD EXPORTABLE PRODUCTION, BY MAIN GROWING AREAS

(Thousands of 60-kg. bags)

	1951/1952-1953/1954	*1961/1962-1963/1964*	*1968/1969-1970/1971*	*1969/1970*	*1970/1971*	*Percentage increase between 1951-1953 and 1968-1970*
Brazil	14.6	23.1	6.6	10.3	1.5	−55
Colombia	5.7	6.8	6.6	7.1	6.1	16
Other Latin American countries	5.7	9.2	9.5	9.9	9.8	67
TOTAL *for Latin America*	*26.1*	*39.1*	*22.7*	*27.3*	*17.4*	*−13*
Africa	5.6	15.0	17.9	18.5	18.1	220
WORLD TOTAL	*32.4*	*56.2*	*43.3*	*47.7*	*38.9*	*34*
Percentage of world total:						
Brazil	45	41	15	22	4	
Colombia	18	12	15	15	16	
Rest of Latin America	18	16	22	21	25	
TOTAL *for Latin America*	*81*	*70*	*52*	*57*	*45*	
Africa	17	27	41	39	47	

SOURCE: United States Department of Agriculture, *World Agricultural Production and Trade* (various issues).

Table 12

COFFEE: WORLD EXPORTS, BY MAIN GROWING AREAS

(Thousands of 60-kg. bags)

	1951-1953	*1961-1963*	*1968-1970*	*1969*	*1970*	*Percentage increase between 1951-1953 and 1968-1970*
Brazil	15,914	17,621	18,578	19,613	17,035	17
Colombia	5,466	6,115	6,525	6,478	6,508	19
Other Latin American countries	5,612	8,313	9,822	9,759	9,788	75
TOTAL *for Latin America*	*27,012*	*32,049*	*34,924*	*35,850*	*33,381*	*29*
Africa	5,121	12,346	16,627	16,114	17,036	225
WORLD TOTAL	*32,814*	*46,313*	*54,108*	*54,466*	*53,254*	*65*
Percentage of world total:						
Brazil	48	38	34	36	32	
Colombia	17	13	12	12	12	
Rest of Latin America	17	18	18	18	18	
TOTAL *for Latin America*	*82*	*69*	*64*	*66*	*63*	
Africa	16	27	31	30	32	

SOURCE: Pan American Coffee Bureau, *Annual Coffee Statistics* (various issues).

Table 13

WHEAT: WORLD PRODUCTION, BY MAIN GROWING AREAS

(Millions of tons)

	1948/1949-1952/1953	*1961/1962-1963/1964*	*1967/1968-1969/1970*	*1969/1970*	*1970/1971*	*Percentage increase between 1948/1949-1952/1953 and 1967/1968-1969/1970*
Argentina	5.1	6.5	6.6	7.0	4.3	29
Other Latin American countries	2.7	2.7	2.7	3.2	3.7	—
Australia	5.1	8.0	11.0	10.8	7.9	116
Canada	13.4	14.3	17.4	18.6	9.0	30
United States	31.0	31.5	41.3	39.7	37.5	33
Western Europe	30.3	42.3	51.2	50.1	43.7	69
Eastern Europe	10.8	13.6	20.6	20.8	22.7	91
Soviet Union	32.7	62.3	83.5	79.9	80.0	155
Others	40.1	39.8	67.3	78.3	79.1	68
WORLD TOTAL	*171.2*	*221.1*	*301.9*	*308.4*	*287.9*	*76*
Percentage of world total:						
Argentina	3.0	2.9	2.2	2.3	1.5	
Rest of Latin America	1.6	1.2	0.9	1.0	1.3	

SOURCES: International Wheat Council, *World Wheat Statistics,* 1969; United States Department of Agriculture, *World Agricultural Production and Trade,* September 1971.

The wheat trade has its own special features. Three countries (Australia, Canada and the United States), which averaged 24 per cent of world production in the last decade, provided—also on average—72 per cent of world exports (see table 14). The export policies of these three countries, particularly the United States and Canada, have considerable influence on conditions on the international market, and they have also affected the regulations resulting from the succession of international wheat agreements which have been negotiated since 1949. Among the trade policies which most affect the competitive position of Argentine wheat are the subsidizing of exports and the various forms of "non-commercial" transactions, that is to say, programmes for the disposal of surpluses and other forms of Government aid to exports. According to the most recent data available, wheat and wheat-flour exports carried out under various Government-supported programmes reached the following volumes:

Countries	*Exports under Government programmes (thousands of tons)*		*Percentage of the country's total exports*	
	1968-1969	*1969-1970*	*1968-1969*	*1969-1970*
Australia	214	215	3.9	3.0
Canada	3,711	3,211	42.7	36.3
European Economic Community	200	1,300	4.0	18.2
United States	8,555	10,107	58.2	61.3
TOTAL	*12,680*	*14,833*	*37.5*	*37.3*

SOURCE: International Wheat Council, *Review of the World Grains Situation, 1969-1970,* London, November 1970, p. 28.

In the agricultural years in question, the four areas mentioned in the table supplied 75 and 79 per cent respectively of world exports, so that the proportion of exports carried out under Government programmes—especially in the case of the United States and Canada—considerably affects the position of other exporters, especially countries like Argentina, which is not in a position to make sales by accepting payment in the currency of the purchasing country, or by extending long-term credit, or by barter transactions, these being the main ways in which wheat is sold under the United States Government programmes.

The problems raised by the disposal of surpluses belonging to the developed countries, notably the United States, have been under international consideration since the mid-1950s, when the FAO "principles of surplus disposal" were approved and almost simultaneously certain notification procedures were established within GATT. These problems, which do not only affect wheat, have been a matter of international concern, and for some years now several countries have been increasing their efforts to make the system of intergovernmental consultation set up to deal with these operations more effective and practical, particularly in view of the diversity of forms now taken by "non-commercial transactions". This new name conferred on such operations reflects the changes which have taken place in government overseas sales programmes, which are no longer limited to agricultural surplus disposal but now also cover the promotion of sales of current production and sales from stockpiles of metals and other raw materials resulting from changes in the strategic needs of some of the developed countries.

The discussion of these problems at the international level has not yet led to the conclusion of any agreement to perfect the machinery for consultations. In the "Declaration and principles of the action programme of Lima" the developing countries reiterated the position which they have been maintaining on this matter, pointing out that developed countries which dispose of surpluses and strategic reserves must ensure that these operations do not adversely affect the economies of the developing countries, and that UNCTAD must maintain a constant watch on the disposal of surpluses and reserves not covered by the FAO "Principles of surplus disposal", in order to ensure that decision 4 (V) of the UNCTAD Committee on Commodities is carried out.[6]

[6] Decision 4 (V) of the above-mentioned Committee lays down a series of principles on the disposal of surpluses and reserves, particularly as regards products not covered by the FAO principles. See "Report of the Committee on Commodities on its fifth session".

Table 14

WHEAT AND WHEAT FLOUR: WORLD EXPORTS, BY MAIN PRODUCER COUNTRIES

(Thousands of tons, trade years July/June)

	1948/1949-1952/1953	*1961/1962-1963/1964*	*1967/1968-1969/1970*	*1968/1969*	*1969/1970*	*Percentage increase between 1948/1949-1952/1953 and 1967/1968-1969/1970*
Argentina	1,694	2,320	2,088	2,785	2,108	23
Australia	3,021	6,293	6,543	5,369	7,250	117
Canada	7,782	11,437	8,867	8,700	8,999	14
United States	10,730	19,989	17,124	14,693	16,480	60
Others	2,854	9,179	14,070	13,448	15,420	393
WORLD TOTAL	*26,080*	*49,127*	*48,692*	*44,995*	*50,257*	*87*
Percentage of world total:						
Argentina	6.5	4.7	4.3	6.2	4.2	
Australia	11.6	12.8	13.4	11.9	14.4	
Canada	29.8	23.1	18.2	19.3	17.9	
United States	41.1	40.7	35.2	32.7	32.8	
Others	10.9	18.7	28.9	29.9	30.7	

SOURCE: International Wheat Council, *World Wheat Statistics*, 1970.

The problems raised by the disposal of surpluses and reserves, and all the "non-commercial transactions" in general which are carried on by the developed countries are not, of course, the only ones affecting Argentine wheat exports: other major problems are those concerning the level of subsidies granted by the developed countries to their own exports, the policy of maintaining domestic prices, and the systems of variable duties, quotas, prohibitions and other measures designed to restrict access to those countries' markets. It is the existence of these policies, in the final analysis, which determines the framework within which production in Argentina has to be planned, so it is hardly sufficient, in this case, to put forward the usual argument that Argentina's exports of wheat are not increasing because there is no increase in production.

(e) *Bananas*

The Latin American countries have traditionally dominated world production and exports of bananas, and over the last few years they have succeeded in increasing their share of world exports in spite of the import restrictions which certain important markets have applied in a discriminatory fashion to this product. The increase in exports has mainly been achieved by Ecuador, Honduras, Costa Rica, Panama and, to a lesser extent, Colombia, and it has made up for the drop in exports by Brazil and other minor producers. One of the decisive factors in this boom has been the change in the way that bananas are shipped and distributed. This is now done entirely in cases, so that the product reaches the consumer in better condition and the losses which used to take place when bananas were transported in unprotected bunches are eliminated, while the percentage of bunches rejected at the export purchase centres is greatly reduced (see table 15).

This relatively favourable trend should not cause the importance of the problems of access for regional exports to be forgotten. The United

Table 15

BANANAS: EXPORTS FROM LATIN AMERICAN COUNTRIES AND WORLD TOTAL

(Thousands of tons)

	1951/1953	*1961/1963*	*1968/1970*	*1969*	*1970*	*Percentage increase between 1951/1953 and 1968/1970*
Brazil	195	223	176	163	204	−9
Colombia	165	185	331	334	257	100
Costa Rica	329	262	708	719	853	115
Ecuador	357	1,122	1,270	1,193	1,364	256
Honduras	310	384	859	838	815	177
Panama	142	274	568	589	575	300
Other Latin American countries	237	318	207	209	198	−12
TOTAL *for Latin America*	*1,734*	*2,768*	*4,119*	*4,045*	*4,266*	*138*
Africa	286	448	358	377	384	25
WORLD TOTAL	*2,533*	*4,060*	*5,752*	*5,673*	*5,976*	*127*
Percentage of world total:						
Brazil	7.7	5.5	3.1	2.9	3.4	
Colombia	6.5	4.6	5.8	5.9	4.3	
Costa Rica	13.0	6.5	12.3	12.7	14.3	
Ecuador	14.1	27.6	22.1	21.0	22.8	
Honduras	12.2	9.5	14.9	14.8	13.6	
Panama	5.6	6.7	9.9	10.4	9.6	
Latin America	68.5	68.2	71.6	71.3	71.4	

SOURCE: FAO, *Trade Yearbook 1970* and previous years.

Kingdom, for instance, imports an average of 350,000 tons of bananas per year, almost entirely from countries in the British Commonwealth (mainly Caribbean producers), which are subject to no restrictions whatsoever, but fixes a quota of scarcely 4,000 tons a year for imports from Latin American countries, which in addition are subject to customs duties of around 15 per cent *ad valorem*. The entry of the United Kingdom into the European Common Market is a source of particular concern for Latin American exporters of bananas, for the EEC applies a common tariff of 20 per cent *ad valorem* to imports of bananas, except for a free quota to the Federal Republic of Germany which is supplied almost entirely by Latin American countries. Imports of bananas by other members of the EEC are subject, in addition to the Common External Tariff, to quotas, licenses and excise taxes, which tend to result in preference being given to purchases in countries or territories associated with the EEC.

(f) *Meat*

Latin America's share of world meat exports has not changed substantially over the past 20 years. Export supplies in some countries—particularly Argentina—have been affected in recent years by periods of drought and by a strong domestic demand, which made it necessary in some cases to prohibit meat consumption during certain periods. Latin America accounts for about 40 per cent of total world exports of beef. Although Argentina (with just over two thirds of the total) is the main exporting country in the region, followed fairly far behind by Uruguay, other Latin American countries developed an active export trade in beef during the past decade, and although the volume of trade in their new export line is still quite small, it has enabled some of them—especially the Central American countries—to add to their exports a product for which there is a relatively dynamic world demand (see table 16).

Table 16

MEAT: LATIN AMERICAN AND TOTAL WORLD EXPORTS

(*Millions of pounds*)

Country	*1951-1955*	*1961-1965*	*1968*	*1969*	*1970*
A. *Beef, mutton and pork*					
Argentina	802	1,440	1,671	2,020	1,728
Brazil	17	94	196	296	339
Mexico	68	90	77	101	101
Paraguay	23	59	70	60	63
Uruguay	136	225	273	280	356
TOTAL	*1,045*	*1,908*	*2,286*	*2,756*	*2,588*
WORLD TOTAL[a]	*4,651*	*8,419*	*10,525*	*11,163*	*11,700*
Total for the five Latin American countries as a percentage of world total	22.5	22.7	21.7	24.7	22.1
B. *Beef*					
Argentina		1,217	1,339	1,693	1,429
Brazil		91	167	253	291
Costa Rica		19	48	55	57
Guatemala		14	28	37	36
Honduras		13	20	34	38
Mexico		81	63	81	80
Nicaragua		29	52	61	69
Paraguay		58	56	49	56
Dominican Republic		1	12	14	10
Uruguay		215	241	254	304
TOTAL		*1,736*	*2,026*	*2,530*	*2,369*
WORLD TOTAL[a]		*4,285*	*5,492*	*6,008*	*6,157*
Total for the Latin American countries as a percentage of world total		40.5	36.9	42.1	38.5

SOURCE: United States Department of Agriculture, *World Agricultural Production and Trade*, November 1971 and earlier issues.

[a] The world totals relate to exports from 44 countries in all continents.

It should be remembered, however, that there are restrictions on beef imports in some important markets. The United States has had an import quota system for years, although it has not yet put it into force. It has preferred to negotiate export agreements with its main suppliers under which they voluntarily limit the volume of their exports, taking into account the growth factor laid down in the formula for calculating the volume, above which the quotas would come into effect. In the European Economic Community there are complex regulations governing meat imports which provide for a variable tax in addition to customs duty, while trade agreements establishing special regulations for this product have been concluded with certain countries such as Yugoslavia. At the end of 1971 an EEC trade agreement with Argentina laid the basis for a system of continuing consultation on trade between the two areas and in particular on the way in which the variable taxes on meat imports should be applied.

(g) *Cotton*

Cotton production in Latin America enjoyed a period of expansion in the 1950s which continued, although at a slower rate, in the next decade. Part of this growth was accounted for by the two major producers—Brazil and Mexico—and the rest by the increases achieved by small producers (the Central American countries) and countries which were formerly net importers (Colombia). No sustained upward trend was noted in Argentina or Peru. Latin America's share in world cotton production has increased in the past two decades, but with quite pronounced fluctuations from year to year, as may be seen from the figures for the last few years, due to the effect of climate variations on yields and fibre quality (see table 17).

Table 17

COTTON: LATIN AMERICAN AND TOTAL WORLD PRODUCTION

(*Thousands of tons*)

Country	*1951/1952-1953/1954*	*1961/1962-1963/1964*	*1967/1968-1969/1970*	*1969/1970*	*1970/1971*	*Percentage increase between 1951/1952-1953/1954 and 1967/1968-1969/1970*
Argentina	129	114	109	140	87	−15
Brazil	361	511	663	672	477	84
Colombia	14	78	123	128	115	779
El Salvador	10	67	42	46	55	320
Guatemala	4	50	71	54	52	1,675
Mexico	270	468	448	379	312	66
Nicaragua	15	74	87	67	78	480
Peru	99	143	94	85	87	−5
Other Latin American countries	21	38	47	47	106	124
TOTAL *for Latin America*	*922*	*1,542*	*1,683*	*1,618*	*1,369*	*83*
WORLD TOTAL	*8,715*	*10,411*	*11,101*	*11,267*	*11,139*	*27*
Percentage of world total:						
Argentina	1.5	1.1	1.0	1.2	0.8	
Brazil	4.1	4.9	6.0	6.0	4.3	
Mexico	3.1	4.5	4.0	3.4	2.8	
Peru	1.1	1.4	0.8	0.7	0.8	
Latin America	*10.6*	*14.8*	*15.2*	*14.4*	*12.3*	

SOURCE: International Cotton Advisory Committee, *Quarterly Bulletin*, October 1971 and earlier issues.

The rapid growth of cotton fibre production in the Latin American countries in the first part of the period under review was largely the result of the prevailing world market conditions, with the United States cotton policy guaranteeing minimum prices which favoured other exporting countries. Prices slumped from mid-1956 onwards, however, when the United States Government radically altered its policy in an attempt to regain its "historical share" of the world cotton market.

Prices of the different types of Latin American cotton have since fluctuated between fairly narrow limits compared with the price fluctuations of other primary products in the region. As a result of these new price levels, production has grown more slowly, but Latin America's share in world exports has nevertheless increased and is continuing to increase, with fluctuations due to variations in production, particularly in Argentina and Peru (see table 18).

(h) *Wool*

World wool production is divided among a large number of countries, most of them small producers. Exports are concentrated in five countries, including two in Latin America. Over the past 20 years the rate of growth of Argentina's production was much slower than the world average rate, while total wool production in Uruguay declined. In contrast, wool output in Australia, New Zealand and South Africa increased, especially in the first two countries. Exports showed virtually the same trends in these five countries: a sharp drop in Uruguay, a somewhat less severe decline in Argentina, but increases of about 55 per cent in Australia and New Zealand, and slightly less in South Africa (see tables 19 and 20).

Among the main reasons for the relative stagnation or decline of wool production in Argentina and Uruguay are the periods of drought which at different times affected producing areas and decimated the stock. Another factor has been the instability of international wool prices and the low quotations for the principal types of Latin American wool in recent years.[7] Wool has also been affected by

[7] From 1967 to 1970, for example, the price of Buenos Aires 5/6 type wool fluctuated between 44 and 48 cents per pound on the Boston market (United States), compared with 70 and 90 cents in the five previous years.

Table 18

COTTON: LATIN AMERICAN AND TOTAL WORLD EXPORTS

(*Thousands of tons*)

Country	*1951/1952-1953/1954*	*1961/1962-1963/1964*	*1967/1968-1969/1970*	*1968/1969*	*1969/1970*
Argentina	31	34	6	—	12
Brazil	138	219	329	384	421
Colombia	...	21	50	64	54
El Salvador	...	58	31	23	44
Guatemala	...	42	61	80	46
Mexico	211	347	295	352	265
Nicaragua	...	67	86	103	62
Peru	78	126	75	85	77
Other Latin American countries	37	13	19	14	25
TOTAL *for Latin America*	*494*	*928*	*952*	*1,105*	*1,006*
WORLD TOTAL	*2,752*	*3,588*	*3,725*	*3,603*	*3,828*
Percentage of world total:					
Argentina	1.1	0.9	0.2		
Brazil	5.0	6.1	8.8	10.7	11.1
Mexico	7.7	9.7	7.9	9.8	7.0
Peru	2.8	3.5	2.0	2.4	2.0
Latin America	*18.0*	*25.8*	*25.6*	*30.7*	*26.6*

SOURCE: International Cotton Advisory Committee, *Quarterly Bulletin*, October 1971 and earlier issues.

Table 19

WOOL: WORLD OUTPUT, BY MAIN PRODUCING COUNTRIES

(Millions of pounds, unscoured)

Country	*1951/1953*	*1961/1963*	*1968/1970*	*1970*	*1971*[a]	*Percentage increase between 1951-1953 and 1968-1970*
Argentina	409	442	435	423	...	6
Uruguay	193	190	171	172	...	−11
Australia	1,201	1,718	1,973	1,935	1,934	64
New Zealand	416	608	730	736	727	75
South Africa	258	327	318	278	...	23
United States	266	302	198	187	180	−26
United Kingdom	99	131	107	98	92	8
Other countries	1,449	2,038	2,281	2,238	...	57
WORLD TOTAL	*4,290*	*5,755*	*6,214*	*6,123*	*6,068*	*45*
Percentage of world total:						
Argentina	9.5	7.7	7.0	6.9		
Uruguay	4.5	3.3	2.8	2.8		

SOURCE: United States Department of Agriculture, *World Agricultural Production and Trade*, August 1971 and earlier issues.

[a] Preliminary estimates.

Table 20

WOOL: PRINCIPAL WORLD EXPORTERS

(Millions of pounds)

Country	*1951/1952-1953/1954*	*1961/1962-1963/1964*	*1967/1968-1969/1970*	*1968/1969*	*1969/1970*	*Percentage increase between 1951/1952-1953/1954 and 1967/1968-1969/1970*
Argentina	250	279	244	249	212	−2
Uruguay	128	85	98	96	88	−23
Australia	1,014	1,427	1,570	1,559	1,664	55
New Zealand	414	568	643	680	669	55
South Africa	220	263	249	260	247	13
TOTAL *five countries*	*2,033*	*2,622*	*2,804*	*2,844*	*2,880*	*38*
Percentage of world total:						
Argentina	12.3	10.6	8.7	8.7	7.4	
Uruguay	6.3	3.2	3.5	3.4	3.0	

SOURCE: United States Department of Agriculture, *Wool Situation*, October 1971 and earlier issues.

Note: The commercial year for wool is from July to June in Australia, New Zealand and South Africa, and from October to September in Argentina and Uruguay.

competition from synthetic fibres, although to a lesser extent than cotton. Substitution by synthetics has been most intensive in thick wools for carpets, which are an important item of Argentina's exports.

(i) *Non-ferrous metals*

Non-ferrous metals produced in Latin America include copper, tin, lead and zinc. Production is concentrated in a few countries, which in general account for a smaller proportion of world production today than in the years 1951-1953.

Production of copper ore increased sharply in Peru at the beginning of the 1960s when new mines came into operation, but since then growth has been slower. The 76 per cent expansion in Chile between 1951-1953 and 1968-1970 took place mainly in the period 1951-1953 to 1961-1963. The aim of the expansion programme designed to raise annual production to 1.1 million tons of fine copper by 1970 was not realized.[8] Chile's share in total world copper production has continued to shrink and reached its lowest ebb in 1970. On the other hand, a much larger proportion of Chilean copper is refined locally. In 1967 the State acquired a share in the large producing companies and took steps to ensure its increasing participation in the marketing of copper abroad.[9] Mexico's copper output remained at the same level, while its exports declined owing to heavier local consumption. In Chile and Peru exports followed the same trend as production (see table 21).

Bolivia is virtually the only tin producer and exporter in Latin America. World production, which averaged 171,000 long tons in the period 1951-1953, dropped to 118,000 tons in 1958-1959 owing to the decline in world consumption, the severe slump in tin prices and the restrictions on production and exports imposed by the International Tin Council. In 1960 a slow process of recovery began in several countries, but Bolivia's production in 1961-1963 was barely two thirds of that recorded in 1951-1953, and in 1968-1970 it had still not re-

[8] The production expansion programme is described briefly in the *Economic Survey of Latin America,* 1964 (United Nations publication, Sales No.: 66.II.G.1), pp. 258 *et seq.*

[9] The large copper companies were nationalized in July 1971.

Table 21

COPPER: LATIN AMERICAN AND TOTAL WORLD PRODUCTION AND EXPORTS

Country	*1951-1953*	*1961-1963*	*1968-1970*	*1969*	*1970*	*Percentage increase between 1951-1953 and 1968-1970*
			A. *Mining production*[a]			
Chile	384	578	675	688	678	76
Mexico	62	51	63	66	61	1
Peru	33	181	204	199	212	525
TOTAL	*479*	*810*	*942*	*953*	*951*	*96*
WORLD TOTAL	*2,721*	*4,373*	*5,816*	*5,861*	*6,218*	*114*
Percentage of world total:						
Chile	14.1	13.2	11.6	11.7	10.9	
Mexico	2.3	1.2	1.1	1.1	1.0	
Peru	1.2	4.1	3.5	3.4	3.4	
TOTAL	*17.6*	*18.6*	*16.2*	*16.2*	*15.3*	
			B. *Exports*[b]			
Chile	343	563	662	663	684	
Mexico	49	27	7	7	5	
Peru	33	178	207	200	216	

SOURCES: Production: *Yearbook of the American Bureau of Metal Statistics,* New York, 1970; exports: official foreign trade statistics.

[a] Thousands of short tons.
[b] Thousands of metric tons.

gained the levels reached at the beginning of the 1950s, although world output had already surpassed them. This was partly due to the depletion of the more accessible mines, the low grade of the ore and other factors connected with production efficiency. Since Bolivia has no refineries, its exports are all in the form of ore concentrates (see table 22).[10]

A number of Latin American countries produce lead and zinc ore, but the main producers are Mexico and Peru, which account for virtually all the exports from the region. In Mexico, lead production declined in absolute terms, while zinc output rose very slowly; thus Mexico's share of world production of both these metals contracted noticeably. In contrast, Peru's lead and zinc production grew more rapidly than the average world rate, so that its relative position improved. Latin America as a whole, however, lost ground in the production of both these metals between the periods 1951-1953 and 1968-1970 (see tables 23 and 24).

(j) *Petroleum*

World production of crude petroleum registered one of the highest growth rates of all the primary products, which partly reflects the dynamic nature of demand for this commodity and the discovery and development of new producing areas. Latin America displayed two different trends: a growth rate well below that of world production in the traditional exporter countries (Venezuela, Mexico, Colombia and Peru), contrasting with a high rate in countries where the production level was very low in *1951-1953* (*Argentina, Brazil,* Bolivia and Chile). In Argentina, Brazil and Chile the production increase was used mainly or entirely to cover the growing domestic consumption.

Venezuela's output rose by 104 per cent between 1951-1953 and 1968-1970 compared with the 233 per cent increase in world production (see table 25). This slower growth seems to have been due, *inter alia,* to the decline in the real prices of petroleum since 1960,[11] the changes in the United States system of import quotas since 1959, and the policies of the oil companies which operate in Venezuela as subsidiaries of corporations which also have subsidiaries in other producing areas. The Venezuelan Government's action seems to have

[10] The Oruro foundry only entered into full operation in 1971, with an annual capacity of 7,500 tons (first stage).

[11] The quotations for petroleum at the well-head published by producing companies in Venezuela remained unchanged between 1960 and 1970, but they were always subject to variable discounts according to market conditions.

Table 22

TIN: PRODUCTION AND EXPORTS OF ORE CONCENTRATES

(*Thousands of long tons*)

Country	*1951-1953*	*1961-1963*	*1968-1970*	*1969*	*1970*	*Percentage increase between 1951-1953 and 1968-1970*
			A. *Production*			
Bolivia	33.3	21.6	29.6	29.6	30.1	−11
Indonesia	33.4	16.3	17.3	16.3	19.1	−48
Malaysia	57.0	58.2	73.7	72.2	73.8	29
Nigeria	8.3	8.2	8.7	8.6	8.0	5
Republic of the Congo	12.3	7.0	6.5	6.5	6.4	−47
Thailand	9.7	14.5	22.1	20.8	21.8	128
WORLD TOTAL	*171.2*	*139.8*	*181.5*	*176.7*	*185.7*	*6*
Percentage of world total:						
Bolivia	19	15	16	17	16	
			B. *Exports*			
Bolivia	33.3	20.1	28.7	29.4	27.8	

SOURCES: International Tin Council, *Statistical Yearbook 1968*; *Statistical Bulletin*, September 1971.

Table 23

LEAD: LATIN AMERICAN PRODUCTION AND EXPORTS

Country	*1951-1953*	*1961-1963*	*1968-1970*	*1969*	*1970*	*Percentage increase between 1951-1953 and 1968-1970*
		A. *Mining production*[a]				
Argentina	21.9	23.4	36.6	38.5	41.9	67
Bolivia	30.5	21.7	26.9	27.8	28.4	−12
Guatemala	5.2	4.9	0.9	0.8	1.1	−83
Mexico	257.8	207.5	191.7	188.4	194.7	−26
Peru	107.5	151.3	168.9	170.1	170.9	57
Brazil	...	10.7	21.6	24.4	20.0	...
Honduras	...	7.5	16.6	15.3	20.0	...
TOTAL	*423.1*	*433.8*	*463.3*	*465.3*	*477.0*	*10*
WORLD TOTAL	*2,656.4*	*2,682.6*	*3,527.3*	*3,572.8*	*3,746.2*	*33*
Percentage of world total:						
Mexico	9.7	7.7	5.4	5.2	5.1	
Peru	4.0	5.6	4.8	4.7	4.5	
Latin America	*15.9*	*16.2*	*13.1*	*13.0*	*12.7*	
		B. *Exports*[b]				
Bolivia	28.1	19.6	23.8	25.0	26.0	−15
Mexico	206.9	148.7	94.3	87.2	94.0	−54
Peru	92.6	135.9	156.3	156.2	159.0	69

SOURCES: Production: *Yearbook of the American Bureau of Metal Statistics, 1970*; exports: official foreign trade statistics.

[a] Thousands of short tons.
[b] Thousands of metric tons.

been directed towards obtaining a larger share of the profits derived from the oil companies' operations in Venezuela rather than towards boosting production, which might have resulted in stronger downward pressure on real petroleum prices. A significant measure adopted as part of this policy was the suspension of all new oil concessions for a considerable number of years: this also affected the annual growth rate of Venezuela's production.

2. *The principal external markets*

From the annual averages for 1961-1965 and 1966-1969, it can be seen that there are only small variations in the importance of the different external markets, particularly those for primary products, which accounted for 93 per cent of the region's total exports in the last five-year period (see table 26). The United States continues to be the most important market for this group of products, although its share fell from 34.1 per cent in 1961-1965 to 32.1 per cent in 1966-1969. However, part of the increase in exports to Canada (especially the increase in exports of crude petroleum) may well be destined ultimately for the United States market, in which case the decrease would be less. In any event, the United States market maintains its leading position in both absolute and relative figures as an importer of Latin American primary products. In the manufacturing sector[12] exports to the United States also account for a high relative share (38 per cent on average for 1961-1966), which declined to 31.1 per cent in the period 1966-1968 not because of a decline in the value of exports to that market, but because of a more rapid increase in sales to other areas.

Although exports of manufactured goods are still at a relatively insignificant level, in absolute terms, they represent the most dynamic

[12] Non-ferrous metals are included under manufactures in the definition of the latter term used in this report.

Table 24

ZINC: LATIN AMERICAN PRODUCTION AND EXPORTS

Country	*1951-1953*	*1961-1963*	*1968-1970*	*1969*	*1970*	*Percentage increase between 1951-1953 and 1968-1970*
			A. *Mining production*[a]			
Argentina	17.3	33.8	35.6	34.9	43.0	106
Bolivia	33.1	5.0	31.2	29.2	51.3	−6
Guatemala	7.7	3.6	...	...	...	...
Mexico	233.0	279.0	279.2	279.3	293.7	20
Peru	134.2	195.6	328.0	331.0	337.3	144
TOTAL	*425.3*	*517.1*	*674.0*	*674.4*	*725.3*	*59*
WORLD TOTAL	*2,656.4*	*3,769.8*	*5,325.2*	*5,412.6*	*5,474.7*	*100*
Percentage of world total:						
Mexico	8.8	7.4	5.2	5.2	5.4	
Peru	5.1	5.2	6.2	6.1	6.2	
Latin America	*16.0*	*13.7*	*12.7*	*12.5*	*13.2*	
			B. *Exports*[b]			
Bolivia	30.0	4.5	28.3	26.5	46.7	
Mexico	355.9	388.0	312.6	313.6	326.5	
Peru	103.3	191.6	315.5	310.8	332.0	

SOURCES: Production: *Yearbook of the American Bureau of Metal Statistics, 1970*; exports: official foreign trade statistics.

[a] Thousands of short tons.
[b] Thousands of metric tons.

Table 25

CRUDE PETROLEUM: LATIN AMERICAN AND TOTAL WORLD PRODUCTION

(*Millions of tons*)

Country	*1951-1953*	*1961-1963*	*1968-1970*	*1969*	*1970*
Argentina	3.7	13.0	18.5	18.1	19.9
Bolivia	0.1	0.4	1.6	1.9	1.1
Brazil	0.1	4.5	8.1	8.4	8.2
Chile	0.1	1.5	1.7	1.7	1.7
Colombia	5.4	7.5	10.3	10.9	11.3
Ecuador	0.4	0.3	0.2	0.2	0.2
Mexico	10.9	15.9	21.1	21.1	22.0
Peru	2.1	2.8	3.4	3.5	3.1
TOTAL	*22.9*	*45.9*	*65.0*	*65.8*	*67.4*
Venezuela	93.2	163.1	190.3	187.9	193.9
TOTAL *Latin America*	*116.1*	*209.0*	*255.3*	*253.7*	*261.3*
WORLD TOTAL	*624.8*	*1,215.1*	*2,081.1*	*2,072.2*	*2,247.0*
Percentage of world total:					
Venezuela	14.9	13.4	9.1	9.1	8.6
Other Latin American countries	3.7	3.8	3.1	3.2	3.0
Latin America	*18.6*	*17.2*	*12.2*	*12.2*	*11.6*

SOURCES: United Nations, *Statistical Yearbook 1970; Monthly Bulletin of Statistics*, November 1971.

Table 26

LATIN AMERICA: TOTAL EXPORTS BY GROUPS OF PRODUCTS AND MAIN AREAS OF DESTINATION

(Millions of dollars)

SITC section	*Years*	*Area of destination*							
		Latin America	*United States*	*Canada*	*European Economic Community*	*European Free-Trade Association*	*Japan*	*Soviet Union and Eastern Europe*	*Total*
Food, beverages and tobacco (sections 0 and 1)	1961-1965	274	1,568	44	998	420	85	427	4,246
	1966-1969	399	1,830	46	1,245	434	132	537	5,203
	1968	425	1,960	48	1,170	395	125	510	5,210
	1969	440	1,870	60	1,350	485	220	520	5,580
Crude materials, except fuels (sections 2 and 4)	1961-1965	134	514	16	556	216	294	111	1,958
	1966-1969	211	515	16	588	261	402	131	2,283
	1968	215	440	17	530	270	375	125	2,110
	1969	255	560	16	700	290	420	135	2,580
Fuels (section 3)	1961-1965	203	872	212	186	281	20	—	2,600
	1966-1969	263	988	305	168	244	29	—	2,910
	1968	275	990	355	170	235	23	—	3,030
	1969	280	1,020	375	170	210	24	—	3,050
Non-ferrous metals (division 68)	1961-1965	42	263	1	204	103	8	1	628
	1966-1969	82	348	—	368	178	53	1	1,058
	1968	83	375	2	370	215	78	—	1,160
	1969	110	305	—	435	210	100	—	1,190
Total primary products	1961-1965	653	3,217	274	1,944	1,020	408	538	9,432
	1966-1969	955	3,681	367	2.369	1.117	616	669	11,454

	1968	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
	1969	1,085	3,755	451	2,655	1,195	764	655	12,400
Chemicals (section 5) . .	1961-1965	34	51	1	21	8	2	7	133
	1966-1969	97	66	2	27	11	4	8	235
	1968	105	62	2	26	11	6	8	240
	1969	120	54	3	34	12	7	10	265
Manufactured goods (sections 6 and 8, excluding division 68) . .	1961-1965	88	90	2	6	5	8	1	216
	1966-1969	214	158	5	51	15	10	5	473
	1968	242	185	4	35	5	6	8	500
	1969	255	195	7	65	35	15	7	590
Machinery and transport equipment (section 7)	1961-1965	28	8	—	2	2	—	—	43
	1966-1969	88	42	1	9	2	—	—	147
	1968	92	51	1	8	2	2	—	160
	1969	125	79	—	12	2	—	—	225
Total manufactured goods	1961-1965	150	149	3	30	15	10	8	392
	1966-1969	399	266	8	87	28	14	13	855
	1968	439	298	7	69	18	14	16	900
	1969	500	328	10	111	49	22	17	1,080
Grand total (sections 0 to 9)	1961-1965	810	3,382	279	1,976	1,035	418	546	9,856
	1966-1969	1,355	3,958	375	2,458	1,148	630	682	12,323
	1968	1,440	4,070	430	2,310	1,133	615	651	12,430
	1969	1,600	4,100	461	2,770	1,250	790	672	13,510
	1970	1,700	4,440	500	3,130	1,300	1,020	690	14,750

SOURCE: United Nations, *Monthly Bulletin of Statistics* (March and May 1967 and 1971, and June 1971).

sector of world trade, and hence they largely determine what possibility there is of the Latin American countries being able to overcome, in the medium and long term, the lack of outlets which affects their export sector. Since such a large proportion of the region's exports of manufactures goes to the United States market, the customs surcharge of 10 per cent imposed by that country on imports in August 1971 and cancelled in December had a particularly strong effect on Latin America.

The growth rate of Latin American exports to the European Economic Community was similar to that of exports as a whole, accounting for 20 per cent of total exports in both 1961-1965 and 1966-1969. The bulk of Latin American exports to the EEC consists of primary products, although the share of fuels declined markedly between 1961-1965 and 1966-1969, owing to the rapid upswing in petroleum output in North Africa, which is preferred by the EEC countries.

Exports of manufactures to the EEC are very small but growing. In the period 1961-1965, 8 per cent of Latin American exports of manufactures were destined for the Common Market; this proportion rose to 10 per cent in 1966-1969. As the EEC was the first trading area to put into effect the system of general preferences in favour of exports of manufactures from developing countries, there seemed to be grounds for expecting that Latin America would considerably increase its exports to this market, but the quotas for a number of products or for certain suppliers in developing countries were filled in the first two months of application of the system, which would appear to indicate that the quotas are very small, at any rate for the products in question.

Exports to the European Free Trade Association (EFTA), most of which go to the United Kingdom, grew very slowly: indeed, their share in the region's total exports fell from 10.5 per cent in 1961-1965 to 9.3 per cent in 1966-1969. Primary products account for nearly all such exports and, as in the case of the EEC, the share of fuels fell considerably in the second five-year period. Exports of manufactures to EFTA were almost insignificant, although they did increase between the two periods in question. Some of the EFTA countries (United Kingdom, Denmark, Norway and Sweden) have announced that they will introduce their own systems of general preferences as from 1972.

The entry of the United Kingdom, and possibly of other member countries of EFTA, into the European Economic Community creates a new situation for Latin American exports to those two areas and will probably have restrictive effects due, on the one hand, to the adoption of the EEC common agricultural policy, with its complex regulations and strong protectionist slant, by the new members, and, on the other, to the considerable increase in coverage thus created for preferential arrangements that discriminate against Latin America.

Among the developed countries, Japan was the fastest growing market for Latin American exports in the past decade. In 1969, exports to Japan exceeded those to the United Kingdom, a really remarkable achievement when it is considered that in 1960 their value was less than half that of the latter. Although this increase meant that the proportion of exports of Latin American products purchased by Japan went up (from 4.2 per cent in 1961-1965 to 5.1 per cent in 1966-1969), it was not enough to improve the Latin American share in total Japanese imports, which has declined in recent years, just as it has in the case of all the other developed countries. Japan's application of the system of general preferences, which has been in force since last August, could serve to stimulate Latin American exports to that market, however, particularly exports of manufactures, which are negligible at the present time.

Latin American exports to the socialist countries of Eastern Europe (including the Soviet Union) accounted for 5.5 per cent of total exports during 1961-1965 and remained at that level during the period 1966-1969. No less than 60 percent of these exports were accounted for by Cuba, while most of the rest came from Argentina and Brazil and, to a lesser extent, Colombia and Peru. In actual fact, only Cuban exports have a relatively stable market in the socialist bloc; exports from the other Latin American countries were characterized by sharp fluctuations from year to year.

Intra-regional exports grew more rapidly than total Latin American exports, from 9.2 per cent in 1961-1965 to 11 per cent in 1966-1969. Although primary products accounted for most of this increase in reciprocal trade, exports of manufactures are growing in importance. Thus, manufactures accounted for 18 per cent of intra-regional exports in the period 1961-1965, and 29 per cent in 1966-

1969. If the total value of exports of manufactures is considered, the importance of the intra-regional market is even greater, since on this basis it absorbed 38 per cent of such exports in 1961-1965 and 47 per cent in 1966-1969.

C. PROBLEMS OF ACCESS AND PRICE INSTABILITY

1. *Problems of access*

The foregoing analysis has brought out the growing deterioration in Latin America's position in world trade. Although it is true that some countries (the major exporters of non-ferrous metals, some small countries and Brazil) have achieved notable increases in the value of their exports in recent years, their case is no different from that of other countries which, at different periods in the past, have experienced a boom in the prices of a major export product on the international market. These periods of high international prices and increased export income are usually followed by periods of depression which sometimes last even longer. In the long term, therefore, successive periods of boom and depression or stagnation, in addition to the other factors which affect world demand for primary products, signify low rates of growth of exports and a climate of uncertainty which adversely affects the execution of development plans or programmes.

Although there had already been international discussion of commodity trade problems before UNCTAD was set up, systematic analysis of the nature of these problems and their possible solutions only began with the Conference of 1964. Since then steady progress has been made in the theoretical discussion of the problems and in working out formulas for solving them, but most of these conceptual advances have not found concrete expression in political decisions by Governments designed to put the solutions into effect. There is perhaps no other field in which there is so wide a gap between theoretical principles and practical action as in international commodity trade. Since the first round of tariff negotiations in GATT, and in all subsequent rounds, agricultural products have been excluded from the programme of trade liberalization initiated in these negotiations. This exclusion was of less relative importance to the developed countries, as their exports of primary products represent only a small proportion of their total exports. For the developing countries, however, the exclusion of agricultural products and primary products in general meant that all hope was denied them of achieving growth in such exports comparable with that of manufactures, a field in which the great majority of the countries of the region had no capacity to compete.

Considerable progress had been made in the liberalization of trade in manufactures by the beginning of the 1960s, not only through tariff reductions but also through the elimination of non-tariff barriers (particularly quantitative restrictions and systems of licences). The entire process of liberalization centred on mutual concessions negotiated among the developed countries, always excluding agricultural products and retaining, in addition, certain barriers to imports of low-cost manufactures from the developing countries. The last round of negotiations in GATT (the Kennedy Round) was initially scheduled to include agricultural products and to consider the problems of the developing countries, but finally it was decided to follow the model of previous tariff negotiations and confine discussion to manufactured products, especially those which were of most interest to the developed countries.[13]

Following the Kennedy Round, and in view of its failure to grant concessions in respect of products of major interest to the developing countries, the developed countries accepted the proposal formulated years before in UNCTAD, to establish a system of general, non-reciprocal and non-discriminatory preferences in favour of

[13] "The product groups receiving the deepest tariff cuts were those characterized by advanced technology or capital intensity. These products are generally assumed to have higher price elasticities than primary products and they have a relatively low component of imports from developing countries. The existing trend towards a more rapid increase in world trade in sophisticated industrial goods than in primary products is therefore likely to be strengthened. Moreover, the expanded trade opportunities in chemicals could be expected to accelerate present tendencies for substitution of primary products by synthetics. It would appear, therefore, that unless there are additional measures in the commercial policy field to correct these tendencies, the Kennedy Round will contribute to a further decline in the relative share of the developing countries in world trade." See *The Kennedy Round: estimated effects on tariff barriers* (United Nations publication, Sales No.: E.68.II.D.12), p. 4.

exports of manufactures and semi-manufactures from the developing countries. At the end of 1970, agreement was reached in the UNCTAD Special Committee on Preferences regarding the establishment of such a system of preferences in accordance with the lists of offers prepared by each of the developed countries. In addition to manufactures or semi-manufactures proper, certain agricultural products in processed or semi-processed form were also included. As these preferences are practically the only trade concession that the developed countries have so far been prepared to grant the developing countries (and doubts continue to exist as to their real value to most of these countries), it should be recalled that the problems of access and price instability of primary products continue to be the Achilles heel of the Latin American economies and so long as effective solutions are not found for these problems it will be unrealistic to expect the export sector in most of the Latin American countries to be able to assume, in the immediate future, the dynamic role which it ought to play in their economic growth.

When the International Development Strategy was approved, the developed countries reiterated their intention of adopting multilateral or unilateral measures to help to speed up the growth of the developing countries. The recommendations contained in the Strategy represent for the most part a minimum agreement on questions of principle, of a very general nature, and no specific arrangements or time limits are laid down for their application or implementation. In the field of primary products, the policy measures recommended by the Strategy may be summarized as follows:

(*a*) No new tariff and non-tariff barriers will be raised nor will the existing ones be increased by the developed countries against imports of primary products of particular interest to developing countries (*status quo* principle);

(*b*) Developed countries will accord priority to reducing or eliminating duties and other barriers to imports of primary products, including those in processed or semi-processed form, of export interest to developing countries through international joint action or unilateral action;

(*c*) Developed countries will give increased attention, within the framework of bilateral and multilateral programmes, to the need to supplement the resources of the developing countries so that they can carry out programmes for the diversification of production and exports;

(*d*) Appropriate action, including the provision of finance, will be taken to execute programmes designed to improve the position of natural products facing competition from synthetics and substitutes;

(*e*) The machinery for consultation on surplus disposal will be widened and reinforced in order to avoid or minimize possible adverse effects of disposals of production surpluses or strategic reserves on trade, and to take account of the interests of both surplus and deficit countries;

(*f*) Efforts will be made to reach agreement, before the third session of UNCTAD, on a set of general principles on pricing policy to serve as guidelines for consultations and actions on individual commodities; and

(*g*) All efforts will be made to carry out the programme of action on commodities mentioned in resolution 16 (II) of UNCTAD, including, where appropriate, the conclusion of international agreements on those products. Commodities already covered by international agreements or arrangements will be kept under review with a view to strengthening the working of such agreements or arrangements and to renewing, where appropriate, agreements or arrangements due to expire.

This set of recommendations covers nearly all the points regarding primary products that are scheduled for consideration at the third session of UNCTAD. Wide-ranging discussions have been held on all of them at past sessions of the Conference and its auxiliary organs, and resolutions have been approved which lay down standards and guidelines for international action. Consequently, rather than reiterating those same recommendations or adopting new recommendations virtually identical with them, the fundamental task of the next Conference should be to prepare and discuss specific proposals for devising instruments for the implementation of the resolutions and recommendations already adopted. In order not to go over the history of all these resolutions and recommendations again, it would be as well to take as a basis for discussion the most recent decisions adopted by the permanent organ of UNCTAD—the Trade and Development Board—on each of the items relating to primary products, linking each decision to the objectives agreed on by the developing countries at the Second Ministerial Meeting of the Group of 77 (Lima, October 1971).

On the agenda of the Conference, the questions of access to markets, pricing policy (including price stabilization measures and mechanisms), and marketing and distribution systems for primary commodities are all grouped as a single item. This is an acknowledgement that these different themes are closely interlinked and interdependent, and that they should be considered together, so that the measures adopted in any one of those fields may be consistent with those adopted in the others. The most recent decision adopted by the Trade and Development Board in this connexion is resolution 73 (X), "Commodity problems and policies: pricing policy and liberalization of trade",[14] which some developing countries considered satisfactory, although others expressed reservations, either because they considered it to represent a retreat from the principles and objectives proclaimed in the recommendation contained in annex A.II.1 of the Final Act of the first session of UNCTAD, or because they did not accept some of the concepts expressed in it. As far as liberalization of trade and access to markets are concerned, resolution 73 (X) reiterates commitments already agreed upon in annex A.II.1, including the *status quo* commitment, which states that no new tariff or non-tariff barriers should be created (or existing barriers increased) against imports of primary products of particular interest to developing countries. Paragraph 25 of the International Development Strategy reaffirmed this commitment in the same terms in which it was originally formulated in annex A.II.1 referred to above, whereas resolution 73 (X) qualified it with the phrase "to the fullest extent possible", which did not appear in any of the previous formulations.

In "The Declaration and Principles of the Action Programme of Lima", adopted by the Group of 77,[15] the call for a commitment not to alter the *status quo* is renewed and it is added that new tariff or non-tariff barriers, or increases in existing barriers, should be eliminated if introduced since UNCTAD II.[16]

The Group of 77 also propose that appropriate arrangements should be made within UNCTAD for keeping the observance of this principle under constant review. However, they make no suggestions or proposals as to how this objective is to be achieved. To ask the developed countries to eliminate tariff or non-tariff barriers applied in contravention of the *status quo* principle would mean that they themselves must judge which of the new barriers or which of the increases in existing barriers constitute a contravention of the *status quo*.

This manner of setting about the elimination of barriers appears unrealistic. It might be better for the developing countries to entrust a working group or the UNCTAD secretariat with the preparation of a study or report identifying specific cases of the application of measures contrary to the *status quo* principle, and then, on the basis of that report, to organize negotiations between the country or countries applying those measures and the developing countries considered to be affected by them. It would thus be possible to arrive at a negotiated settlement for the elimination of those barriers. There is no reason why the arrangements within UNCTAD should be any different from those made for keeping under review the observance of all the other principles and recommendations approved by UNCTAD. As one of the items on the agenda of all meetings of UNCTAD and its permanent organs is precisely the review of the implementation of recommendations, thought should be given to the necessary arrangements for making the review procedure more effective. This question should undoubtedly be discussed in the light of the mandate given to UNCTAD to appraise the progress made towards achieving the goals and objectives of the International Development Strategy.

In this connexion, mention should be made of the need to establish machinery for the discussion within the framework of UNCTAD of any restrictive measures that a developed country may propose to apply and that would or could have particularly adverse effects on developing countries. The aim of such discussion would be to examine the justification for new restrictions or for an increase in existing re-

[14] See UNCTAD, "Report of the Trade and Development Board on the first part of its tenth session" (document TD/B/327, Annex 1, 30 September 1970).

[15] See Second Ministerial Meeting of the Group of 77, "Declaration and Principles of the Action Programme of Lima", document MM/77/II/11, 9 November 1971.

[16] In this connexion, it should be pointed out that the developing countries are on the defensive. Their aim at the second session of the Conference in 1968 was to obtain the elimination of measures contrary to the *status quo* principle introduced after the first Conference in 1964; now their aim is to secure the elimination of measures introduced after the second Conference (1968).

strictions, the conditions under which developing countries could be exempted, or other forms of compensation they could receive if exemption were not possible.

It cannot be said that such machinery already exists in GATT, since the latter's consultation machinery has only functioned *a posteriori,* and in any case most of the developing countries are not members of GATT. Lastly, it must be recognized that the fulfilment of the *status quo* commitment cannot be considered separately from other measures such as resorting to the safeguard clauses based on the concept of "disruption of the market" or on protection of the balance of payments and the external financial position, for if situations of market disruption (for one or more products) or balance-of-payments disequilibrium are not defined clearly, any new restriction or any increase in existing restrictions could be justified for one of these reasons, so that the *status quo* commitment would become a dead letter.

Another point in resolution 73 (X) which repeats previous recommendations concerns the liberalization of trade in primary products through reductions in or elimination of customs duties and other barriers. Once again the wording of this recommendation in resolution 73 (X) is more imprecise than that of part II.A.3 of annex A.II.1 of the Final Act of the first session of UNCTAD. Paragraph 26 of the International Development Strategy constitutes a more explicit commitment in this respect: it states that "developed countries will accord priority to reducing or eliminating duties and other barriers to imports of primary products, including those in processed or semi-processed form, of export interest to developing countries, through international joint action or unilateral action" and it calls for the continuance and intensification of intergovernmental consultations to achieve that end. This points to a way of achieving the objective of liberalization: intergovernmental consultations. It would thus appear logical for the discussions on this matter at the third session of UNCTAD to be concentrated on the preparation of a programme of consultations and negotiations in respect of a selected list of products, subject to a timetable permitting adequate organization of the technical aspects of the consultations or negotiations. In preparing lists of products it would be possible to group together products sharing certain common problems. Three major groups may be mentioned by way of example:

(a) *Products exported by developing countries which compete with the domestic production of developed countries*

Most of these are temperate-zone agricultural products, and the main problems facing the developing countries here are obviously the protective agricultural policies pursued by the developed countries. Consequently, any progress in reducing or eliminating existing tariff and non-tariff barriers against these products can only come from such agreements as may be reached regarding changes in the principles, guidelines and motivations of the protective agricultural policies of the developed countries. For the most part, the latter have shown little inclination to discuss their agricultural policies at the international level, though their attitude has altered somewhat as they have become increasingly aware that such policies have implications that go beyond the individual interests of each country. In their agricultural policy, the developed countries have set themselves certain targets (a certain level of self-sufficiency for the country and a certain level of income for the people engaged in agriculture) whose attainment means curtailing imports by means of quantitative restrictions, import bans, systems of licenses, discriminatory practices, import quotas, customs duties and compensatory taxes. There are also other factors which help to discourage or obstruct exports from the developing countries, especially the subsidies, refunds, subsidized credits, non-commercial transactions and other forms of government assistance that developed countries grant their own agricultural exports. The disposal of surpluses and stocks (which is included under non-commercial transactions) is probably the only one of the above measures on which some agreements have been reached (in particular, the "Principles of surplus disposal" adopted by FAO several years ago), but the operation and implementation of these agreements is not considered satisfactory by all the parties concerned.

For the past four years, the Agricultural Committee of GATT has been discussing the problems of trade liberalization for agricultural products. For this purpose it selected eight products (cereals, beef and other meats and meat products, fruit and vegetables, dairy products, vegetable oils and oilseeds, tobacco and wine) whose importation into developed countries is subject to one or more of the various types of trade barriers referred to above, while their exportation from developed countries is aided by some kind of government assistance, such as direct or indirect subsidies and/or refunds to the exporter. Despite the selective criteria adopted, however, the Committee has failed to reach any kind of understanding that is acceptable to all the parties concerned. The major stumbling-block is still the lack of agreement on the principles and orientation of the production policies of the developed countries, especially as regards efforts to set up domestic price-support systems that have a neutral effect on production. It is therefore interesting to note the objectives that the developing countries have set themselves for improving their access to the markets of developed countries, as laid down in the Declaration and Principles of the Programme of Action of Lima:

Inclusion of all primary or processed agricultural products listed in chapters 1 to 24 of the Brussels Tariff Nomenclature in the generalized system of preferences that the developed countries undertook to introduce for exports from developing countries. As yet, only very few of these products have been incorporated into the preferential tariff systems that have been adopted or are being set up, so that the possibilities for developing countries (especially the least developed among them) to expand their exports are strictly limited. It is important to note that, since the benefits granted under the generalized system of preferences relate to reductions in customs duties, the value of such concessions is minimal wherever non-tariff barriers (global or bilateral quotas, license systems, etc.) still exist.

Elimination of the sliding tariff scale under which the duty payable on primary products increases with the degree of processing involved. This tariff policy of the developed countries tends to slow down the development of industries for processing raw materials in the developing countries and thus to prevent those countries from diversifying their exports and earning the extra income deriving from the higher added value of processed goods. Its elimination is therefore of the highest priority since, so long as tariff cuts on primary products are not accompanied by proportionally greater reductions in the tariffs on processed or semi-processed forms of those products, the same effective level of protection that the developed countries have traditionally maintained against imports from developing countries will remain: while obtaining greater facilities for exporting their primary products the developing countries will still be discouraged from exporting the same products in processed form.

Elimination of anti-economic production incentives by developed countries, through reduction of domestic price support levels and elimination of subsidies for production in respect of all products where the developed countries are in competition with developing countries. Agreement on this will be a decisive factor in any attempt to liberalize trade and open up markets, for example by guaranteeing imports from developing countries a minimal share in the market of each developed country (bearing in mind the increase in consumption).[17] This proposal was contained in the Charter of Algiers and has since been put forward again by the Group of 77. Another possible course of action would be to modify systems which impose a fixed duty and a variable duty (the latter being intended to absorb the difference between the cost of the imported product and the domestic price) and combine them in a single fixed duty representing a substantial reduction on current levels.

(b) *Products which are exported mainly or exclusively by developing countries and are predominantly tropical-zone agricultural products*

In the developed countries where these products are subject to customs duties, the aim of this taxation is not protection of local goods but the raising of revenue. This is sufficient reason for considering that these duties could therefore be eliminated without creating problems for the economies of the countries applying them. Although it is fair to recall that in recent years some developed countries have been persuaded to reduce certain excessively high duties, the aim of eliminating such duties entirely is still far from being achieved. The Group of 77 set as its aim the complete elimination of existing customs duties, both on primary and processed products, and the gradual reduction to nothing of all internal taxes and fiscal dues which a large number of developed countries also apply to these products. Until these aims can be achieved, the developing countries have proposed that the developed

[17] It might be quite appropriate to speak of the generalization of this principle, since it already applies to United States beef imports and to the sugar imports of certain European countries which are signatories of the International Sugar Agreement.

countries should introduce a system for reimbursing such taxes and dues to developing exporter countries.

The problems of trade in tropical commodities came under considerable discussion in GATT in the first few years of the last decade, but nothing very positive resulted from this. After some years of inactivity, it was agreed to reactivate the GATT Special Group on Tropical Commodities with a broad mandate to examine the various problems which affect trade in these commodities and to suggest means of solving them, giving special attention to studying the impact of excise and other internal taxes imposed in developed importer countries. This second phase in the activities of the Special Group, which has already been going on for several years, has proved to be no more successful than the first, for the Special Group has restricted itself to compiling information and holding exploratory discussions on the problems or to a general survey of the evolution and trends of the markets for the commodities under consideration.

Taking three products which are important Latin American export commodities (coffee, cocoa and bananas), a brief analysis can be made of the type of obstacle which affects trade in them. In most of the developed importer countries (including the United States, which is the main market for Latin America), imports of coffee beans, cocoa beans and bananas are free of customs duties and all other types of restrictions. Imports of coffee and cocoa in certain processed forms (roasted, soluble or powdered) can also be freely imported into the United States. In most European countries, however, there are different levels of customs duties on coffee beans, increasing progressively for toasted and soluble coffee. In the European Economic Community (especially France, Italy and the Federal Republic of Germany), excise taxes are very high and constitute the main obstacle rather than customs duties (at present only 7 per cent *ad valorem* as against the 16 per cent fixed initially as the common external tariff). Customs duties on cocoa beans were reduced or eliminated in most European markets as part of the concessions won in the Kennedy Round; the main exception is the European Common Market, where a duty of 4 per cent *ad valorem* is applied. Imports of bananas also have free access to several European markets, with the important exception of the European Economic Community, where they pay customs duty of 20 per cent *ad valorem,* except for a duty-free quota established by the Federal Republic of Germany.

Access problems for the tropical commodities which are most important to the Latin American countries are mainly encountered on the European markets, where internal taxes are also imposed on these commodities in their processed or semi-processed forms. The countries which levy high excise taxes have not shown themselves inclined to make any large-scale reduction in them, on the grounds that any such reduction would not help to increase imports but would mean a loss of revenue to the Treasury.

Another problem which was placed before the Special Group on Tropical Products but on which no agreement has been reached is that of the discriminatory treatment of some commodities on the part of the European Economic Community. This is a matter which has been provoking friction among the developing countries, although it is difficult to evaluate, especially in some cases, the actual advantages gained by some countries and the actual prejudice suffered by others. In any case, neither the International Development Strategy nor the "Declaration and Principles of the Action Programme of Lima" contains any pronouncements or recommendations on the problems of special preferences or the system of discriminatory trade agreements which the EEC has negotiated with an ever-increasing number of developing countries.[18]

(c) *Natural products whose world consumption is not increasing and in many cases is even decreasing owing to competition from synthetics and substitutes*

Among the products in this group are cotton, rubber, hard fibres, lac and mica, which were selected by the UNCTAD Permanent Group on Synthetics and Substitutes for research into the precise nature of the problems encountered, with a view to identifying measures which might help to improve their competitive situation vis-à-vis substitutes. To this list could be added cowhides, some metals and (for certain applications) wool. For most of

[18] For many years the Latin American countries have maintained a clear attitude of opposition to trade discrimination between developing countries. In recent months, the United States too has expressed opposition to the preferential special agreements of the EEC. It should be remembered that this policy of trade discrimination will be aggravated in 1973, when the United Kingdom and other European countries enter the EEC.

the commodities mentioned, the problem of the competition from synthetics is not mainly or exclusively determined by the existence of tariff barriers, although these usually accentuate any price disadvantage between the natural product and the synthetic substitute. Without, therefore, belittling the contribution which the reduction or elimination of customs duties could make to improving the competitive situation of natural products, the emphasis has been on domestic and international measures which could assist in increasing productivity and developing new uses for natural products. This is the position taken by the developing countries with regard to the products in this group, particular emphasis being placed on the role of international co-operation—especially by the developed countries—in carrying out research programmes on productivity and new uses. International financial aid and technical assistance are of decisive importance here, in view of the tremendous disparity between the massive financial resources and technical know-how which can be mobilized by the big industrial enterprises that manufacture synthetic products and substitutes and the slender resources which the developing countries can invest for this purpose. This international co-operation effort could be channelled through study groups, international secretariats or similar agencies (like those already in existence for cotton and wool), which could undertake the execution of research programmes and the promotion of new uses for the particular products in which they specialize. In keeping with a decision taken recently by the World Bank with a view to providing more support for agricultural research programmes in the developing countries, consideration could be given to the preparation of specific projects, which could receive financial support from the Bank, for solving the problems of natural products affected by competition from synthetics.

2. *Price instability*

During the 1950s there was intensive international discussion of the problems connected with the price levels of basic commodities exported by the developing countries, both from the point of view of long-term trends and from that of the size and frequency of short-term fluctuations. Discussion centred particularly on the effects of price instability on the earnings of the developing countries and much consideration was given to formulas or mechanisms for mitigating the harmful effects of such instability.

As from 1963, the International Monetary Fund introduced a system of compensatory credits to assist countries affected by a decrease in export earnings. This system, some aspects of which were revised in 1966, offers a temporary solution to the financial difficulties which a developing country may have to face, but equally tends to aggravate the problems of external indebtedness, particularly in the short or medium term.

The persistence of the developing countries in seeking solutions to the problem of the instability of commodity prices and their relative deterioration over the long term in comparison with prices of industrial products achieved a small gain in recent years, when the International Monetary Fund took a decision on the conditions for granting credits to member countries wishing to share in financing buffer stocks (stabilizing stocks). Again, however, this solution tends to increase the external indebtedness without any real attempt being made to define the instruments of a policy which will guarantee remunerative and stable price levels for countries which depend mainly on the export of basic commodities.

The International Development Strategy states that "efforts will be made to reach agreement, before the third session of UNCTAD, on a set of general principles on pricing policy to serve as guidelines for consultations and action on individual commodities. As one of the priority aims of pricing policy, particular attention will be paid to securing stable, remunerative and equitable prices with a view to increasing the foreign exchange earnings from exports of primary products from the developing countries". It is significant that use should be made of the concepts of pricing policy and guaranteed prices, since this indicates a requirement for international machinery or arrangements capable of carrying out functions within the world market similar to those carried out in the markets of the developed countries by policies to support or guarantee domestic prices. This agreement on a set of general principles is reflected in part A of resolution 73 (X) of the Trade and Development Board, where mention is made of "pricing policy", but without any reference to fixing or guaranteeing prices. Actually, this set of general principles is worded in such a way that it reflects both the interest of the developing countries in price levels which will help to improve the rate of growth of their export earnings, and the concern of the developed countries that this policy should not lead to increased import costs for them and should take account of the effect of prices on demand: prices should not be such as to encourage oversupply, nor stimulate the use of substitute products.

At all events, it appears essential that UNCTAD III should formulate explicitly in the course of its discussions the procedures, arrangements or mechanisms through which an attempt will be made to achieve the aims indicated in the pricing policy of resolution 73 (X). Two of these aims are particularly relevant, namely, those stating that "efforts towards the elimination of excessive short-term fluctuations should be actively pursued" and that "where the prices of commodities of particular export interest to developing countries stand at a level which is not considered remunerative to producers, appropriate efforts should be made at an international level to improve prices".[19] The elimination of the high degree of instability generally found in the prices of basic commodities on the international market and the maintenance (or re-establishment, if necessary) of prices which are remunerative to producers implies the adoption of a set of national and international measures and the establishment of the necessary institutional machinery for centralizing the decision-making process and supervising its execution. In general terms, the implementation of a pricing policy for basic commodities would have to be based on the negotiation of some type of international arrangements or agreements for individual products or groups of products.

[19] Report of the Trade and Development Board on the first part of its tenth session, TD/B/327, annex I.

The Declaration of Lima reiterates once again the traditional position of the developing countries with regard to the role of international agreements on basic commodities as instruments for stabilizing the international market. The experience of the past in this respect is analysed below, but it is worth pointing out here that the developing countries have reaffirmed their intention of making the most strenuous efforts to secure the negotiation of agreements on commodities, particularly those enumerated in UNCTAD resolution 16 (II), and have shown a renewed desire for the formulation at the next Conference of a general set of principles and guidelines for the implementation of an international policy on basic commodities, as well as for the preparation of a general convention on commodity agreements. These objectives have been a subject of discussion in UNCTAD and its subsidiary bodies since their first session, without getting any further than recommendations of a general nature: it is therefore to be hoped that the phase of implementing these recommendations can now be initiated. This is why the developing countries have affirmed the need to give the Secretary-General of UNCTAD greater scope for arranging intergovernmental consultations on basic commodities.

At the recent meeting of CECLA in Bogotá, the Latin American countries reaffirmed the need for commodity prices to maintain a just and equitable relation to the prices of the developing countries' manufactured imports, and the need to ensure that commodities of special export interest to Latin America enjoy suitable sales and marketing conditions in world markets.

D. INTERNATIONAL COMMODITY AGREEMENTS

The general approval which has been expressed regarding international commodity agreements for more than two decades and the countless occasions on which recommendations have been adopted advocating an increase in their number bear little relation to the meagre results actually achieved in this field. Judging from experience, it may be concluded that the number of products on which the negotiation of international agreements is feasible in practice is very small indeed. This raises the question of whether a real effort was ever made to initiate new rounds of negotiations or to conclude successfully those that had originally been started. There is perhaps no more telling example than the tortuous and still uncompleted path that negotiations on an international cocoa agreement have followed since 1958.

Though the actual number of agreements negotiated presents a fairly dismal picture, there are other factors that justify a certain amount of optimism with regard to future prospects. The operation of existing agreements, for example, has produced some positive results and has made it possible steadily to improve and refine the techniques and methods of achieving the objectives of each agreement. The greater the detail and the precision with which the objectives of the agreements are defined, the greater the possibility of including in the agreements provisions relating to the production policies of exporting countries, conditions of access to the markets of importing countries, formulation of a policy designed to secure prices that are remunerative for the producers and equitable for the consumers (including the fixing of floor and ceiling prices to reduce short-term fluctuations), regulation of the international market in the event of a serious or persistent imbalance between production and consumption, execution of consumption promotion programmes, diversification of production and exports and, finally, establishment of procedures and norms regarding marketing and distribution on external markets. This list, which does not pretend to be exhaustive, shows that international commodity agreements can be the appropriate institutional machinery for formulating and executing an international policy designed to achieve certain objectives that are in the interest of the international community as a whole and the developing countries in particular.

Recently there have been signs that some developed countries are changing their attitude towards commodity agreements. For example, when resolution 73 (X) of the Trade and Development Board on pricing policy and liberalization of trade was adopted, the United States formulated the following reservation:

> "The United States representative explained that his delegation had associated itself with the resolution so that the UNCTAD Committee on Commodities could be relieved of the further necessity of trying to negotiate policy guidelines on those two subjects and could concentrate on new and more practical areas of activity, such as the proposed diversification studies and surveys of research and development needs. The compromise text did not precisely or fully reflect his country's position, particularly with regard to pricing policy: in that connexion, his Government did not wish to emphasize international agreements directly influencing prices, but domestic policies that promoted healthy, stable and expanding commercial markets. Having gained considerable experience of the results of domestic price intervention, the United States Government was becoming increasingly sceptical about the merits of direct price regulation as a means of income support, since that policy too often resulted in production for storage rather than production for consumption. . . . The United States did not interpret the reference to international action, "national action", or "international arrangements" (paragraphs 3 (*b*), (*c*), and (*d*)) as implying encouragement for international commodity agreements. It believed that technical and economic factors limited the scope for formal agreements and that consultative arrangements or other informal types of international co-operation were indicated in most cases."[20]

This new conception by the United States of the function of commodity pricing agreements had already become apparent in the course of the renewal of the 1971 International Wheat Agreement, which for the first time included no provisions governing prices.[21]

More than anything, this omission reflected the disagreement among the main exporters of wheat as to the floor and ceiling prices that should be established under the Agreement, particularly since some of them were unaware of the relevant obligations contained in the previous agreement. Obviously, an agreement that includes no commitments regarding prices and no statements of the rights and obligations of participants in respect of trade in the commodity in question can be no more than an arrangement for the exchange of information and, possibly, a forum for consultations between countries. Such an arrangement is neither in the interests of developing countries nor is it conducive to solving the problems of international trade in products on which it is proposed to negotiate agreements.

Certain developing countries, too, seem to be somewhat dissatisfied with the operation of commodity agreements, as can be seen from

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[20] See "Report of the Trade and Development Board on the first part of its tenth session", op.cit., annex II, p. 3.

[21] Article 21 of the Agreement states: "In order to assure supplies of wheat and wheat-flour to importing members and markets for wheat and wheat-flour to exporting members at equitable and stable prices, the Council shall at an appropriate time examine the questions of prices and related rights and obligations. When it is judged that these matters are capable of successful negotiation with the objective of bringing them into effect within the life of this Convention, the Council shall request the Secretary-General of UNCTAD to convene a negotiating conference." See "United Nations Wheat Conference, 1971" (TD/WHEAT.5/7) (23 February 1971).

the final part of resolution 86 (XI) of the Trade and Development Board, which reads:

"*Requests* the Secretary-General of UNCTAD to prepare, for submission to the third session of the Conference, in co-operation with the international bodies concerned, and in particular with the governing councils and the secretariats of the Agreement, and in the light of the experience of the operation of existing international commodity agreements, a study on their effectiveness, seeking the views and suggestions of these bodies in connexion with measures designed to maximize possible benefits therefrom to all participating countries, especially the developing countries, which would facilitate the negotiation of entirely new commodity agreements."[22]

Though the Declaration of Lima reflects this approach and reiterates the request to the secretariat of UNCTAD, there is a striking difference between the attitude of the United States and that of the developing countries. Whereas the former plays down the negotiation of agreements and tends towards the suppression of all provisions on pricing, the developing countries stress the urgency of carrying out the programme laid down in resolution 16(II) of the second session of UNCTAD on international action on the group of commodities listed therein, while at the same time pointing to the need to assess the effectiveness of existing agreements and to study measures designed to maximize possible benefits to participating countries, especially developing countries.

It is therefore useful to take a brief look at the operation of the actual agreements concluded on sugar, coffee, tin and wheat, which are of particular importance for Latin American exports, to try to see how far they have achieved their objectives.

1. *The International Sugar Agreement, 1968*

This agreement only covers part of the world trade in sugar, namely, those transactions that are not covered by the following special arrangements: (i) exports under the British Commonwealth Sugar Agreement; (ii) the United States import quota system; (iii) exports by Cuba to the Soviet Union and other socialist countries, and (iv) exports under the African and Malagasy Sugar Agreement. Out of an annual average of 20 million tons of world sugar exports for the period 1968-1970, some 7 million tons were not covered by one or other of the special arrangements listed above, and this quantity therefore represents the volume of world trade in sugar governed by the 1968 international agreement.

Among other things, its objectives include: maintaining stable prices for sugar which are reasonably remunerative for producers but do not stimulate the growth of production in the developed countries; achieving a more satisfactory balance between production and consumption; facilitating the co-ordination of marketing policies, and allowing the sugar exported from developing countries a fair share of, and easier access to, the markets of developed countries. The price objective was undoubtedly of greatest immediate interest, because of the prolonged period of depressed international prices for sugar that had existed since the middle of 1964. When the agreement came into effect early in 1969, prices began to recover and continued to do so throughout 1970 and 1971, partly because of the export controls that were adopted and partly as a result of an increase in the import requirements of several countries. It can therefore be asserted that the Sugar Agreement has at least achieved one of its objectives, that of more stable prices, since they remained within the specified limits of 3.25 and 5.25 United States cents per pound, f.o.b. Caribbean ports. As to gaining easier access to the markets of developed countries and increasing the developing countries' share in them, no progress has been made except for the undertakings contained in Annex A of the agreement whereby certain importing countries agreed not to expand their sugar production and to meet part or all of their increased consumption through imports. Although the undertakings were made by only very few countries, their inclusion in the 1968 agreement was something that no previous international agreements on this commodity had provided for.

2. *The International Coffee Agreement*

This agreement came into effect at a time when world prices had been steadily declining and production surpluses, particularly in Brazil, had been running at a high level for several years. The introduction of the first export regulations towards the end of 1963 coincided with the forecast of a very bad Brazilian crop for 1964/1965. The two factors therefore combined to provoke a recovery of world

[22] See "Report of the Trade and Development Board on its eleventh session" (TD/B/385, annex 1, p. 8) (29 September 1971).

prices, which, from an average of 34.1 United States cents per pound in 1963[23] (the lowest price since 1950), jumped to 46.7 cents in 1964. Big fluctuations in Brazil's coffee output have only a very short-term influence on price levels, however, so that although the export quotas were maintained, prices again declined from 1965 to 1968, when they made a fresh recovery as a result of the severe drop in Brazilian coffee production in 1968/1969 and 1970/1971.

The agreement regulates the world coffee market through a system of export quotas that are adjusted on a selective basis in accordance with the price fluctuations of certain standard qualities. Naturally, the problem of forecasting consumption requirements, on the basis of which the export quotas and their distribution among the various countries are determined, is one of the problems that frequently make it difficult to maintain co-operation among the signatories to the agreement, owing to the disagreements that arise regarding the size of the quotas allocated to certain members or their proportion to the original volume of the overall quota. There is no denying, however, that the agreement has introduced a semblance of order into the world coffee market and that without it prices would probably have fallen disastrously—a situation which would not even suit the importing countries in so far as it would mean a sharp reduction in the external purchasing power of the exporting countries.

Besides greater stability and a relative improvement in world coffee prices, another major objective of the agreement is to bring about a reasonable balance between world supply and demand, to which end the producing countries undertook to set themselves production targets. Under the programme outlined by the administrative council of the agreement, the producing countries are supposed to adjust to these production targets by 1972/1973, when the present agreement expires. The chances of their doing so entirely, however, seem somewhat remote since, except in Brazil, the progress made by the production diversification programmes is extremely limited owing to the insufficient financial resources available to the Diversification Fund established under the agreement. In these two fields—diversification and production targets—the fulfilment of the agreement's objectives has not been altogether satisfactory, though it would be a mistake to underestimate the significance of the progress that has been made in the face of the tremendous problems confronting the coffee market.

[23] In accordance with the series of figures published in the United Nations *Monthly Bulletin of Statistics*, all coffee prices listed in this section refer to Santos No. 4 coffee, ex-dock New York.

3. *The International Wheat Agreement*

The most recent international wheat agreement came into effect in the middle of 1971. Its provisions, which differ substantially from all preceding international agreements on the commodity, do no more than keep in being administrative machinery for compiling and exchanging statistical information and for conducting consultations in the face of an unstable or potentially unstable situation in the wheat market. The fact that all the undertakings included in previous agreements regarding the volume of supply by the exporting countries and the volume of purchases by the importing countries have been omitted from this new agreement, together with all undertakings regarding pricing policy, gives this new agreement a very special character which, as pointed out above, reflects a fundamental change in the attitude of certain developed countries towards commodity agreements. In the specific case of wheat, most of the world exports of which come from developed countries, this new conception of what commodity agreements are for may signal the end, for the developing countries, of any hope of competing on the wheat market, as they are in no position to match the kind of government assistance (subsidies, credits, etc.) that developed countries grant their exporters. The price war that certain developed countries waged while the previous agreement was still in force, despite the fact that it included undertakings regarding minimum prices, is a precedent that cannot be ignored when assessing market prospects under the new agreement.

4. *The International Tin Agreement*

The current tin agreement, which has been in force since July 1971, is the fourth of its kind. As in the past, the whole arrangement revolves around an international buffer stock and fixed floor and ceiling prices, with provision for fixing export control periods when market conditions so require. The first agreement, which was signed in 1956, coincided with an accumulation of production surpluses and a sharp drop in metal prices, so that export restrictions had to be imposed, while at the same time tin had to be purchased on the open market for the buffer stock until the resources were exhausted. The effect of these restrictions was to cut the volume of production—which had averaged 180,000 tons annually over the three preceding years—to 134,000 in 1958. From then on, and especially after 1960, when world consumption of tin exceeded that of previous years, the operation of the buffer stock and the imposition of export controls whenever prices flagged wrought a steady improvement in tin prices, whose minimum and maximum levels, since October 1970, have been the highest ever recorded. By and large, prices have remained in the intermediate range between the floor and ceiling prices established under the agreement.

The success of this agreement is due not only to its operational methods (involving direct intervention in the market by means of purchases and sales of the metal and export restrictions when needed), but also to the particular conditions of the world market, where there has been a deficit in production for the major part of the period during which the agreements have been in force.

TRADE IN MANUFACTURES AND SEMI-MANUFACTURES

1. *The development of world trade*

(a) *Recent trends and characteristics*

Analysis of the evolution of world trade in manufactures and semi-manufactures[1] over the last decade brings out some basic facts and trends, among the most noteworthy of which are:

(i) The growing share of industrial products of more complex manufacture in the world market for goods;

(ii) The growing importance of the developed countries in the trade in manufactures;

(iii) The marked intra-area nature of exports of manufactures from the developed countries with a market economy and the socialist countries of Eastern Europe, in contrast to the trade trends in the same commodities in the developing countries, with the exception of Latin America;

(iv) The change in the attitude of the socialist countries of Eastern Europe to the international market, with a pronounced trend towards intensifying trade with the countries of Western Europe;

(v) The emergence or strengthening of some dynamic centres of world trade (Japan and the European Common Market) and the weakening of the trade position of others (United States and United Kingdom);

(vi) The emergence and consolidation of regional groupings of developed and developing countries.

Table 1, which shows some of the most important quantifiable aspects of world trade in manufactures, illustrates the above-mentioned structural changes which have taken place over the past decade.

Between 1960 and 1969, world exports of goods increased at an average annual rate of 8.8 per cent. Exports of primary commodities increased at the rate of 5.7 per cent, but exports of manufactures increased at the rate of 10.8 per cent per year. This advance brought up the share of manufactures from 51 per cent in 1960 to 61 per cent of world trade in 1969. These trends are equally clear in the developed and the developing countries. In the developing countries in general and Latin America in particular, manufactures account for considerably less of the total trade in goods than in the developed market economy countries and the socialist countries. Thus, in 1969, 72 per cent of the trade of the developed countries was in manufactures, while this percentage was only 17 per cent in the developing countries as a whole, and barely 8 per cent in Latin America.

The above percentages bring out another basic feature of the market in manufactures, namely, the very considerable share of the developed world, which has tended to increase over the last decade. In 1960, 84 per cent of exports of manufactures came from developed countries; this share rose to 85 per cent in 1969.

In the exports of the developed countries, the most dynamic trade is that between countries in the same area (intra-area) rather than that between countries in different areas (inter-area). Between 1960 and 1969, exports of manufactured products within the same area rose at the rate of 12.7 per cent, while exports to other areas rose at the rate of 5.8 per cent. This result indicates the growing integration being achieved by the developed countries. In addition to this, both the developed market-economy countries and the socialist countries display a high degree of self-supply in manufactures. In 1969, 74 per cent of the exports of manufactures from developed countries remained within their own area, while in the case of the socialist countries, 69 per cent of exports were of the intra-area type. The reverse situation, however, prevailed in the developing countries, where only 33 per cent of exports of manufactures were sold within the same grouping. The corresponding proportion for Latin America was 46 per cent. The bulk of exports of manufactures from these countries was to the developed countries (67

[1] SITC sections 5, 6, 7 and 8, excluding division 68.

Table 1

TRENDS AND CHARACTERISTICS OF WORLD TRADE IN MANUFACTURES[a]

		World total	*Developed countries*	*Developing countries*	*Socialist countries*	*Latin America*
(A) *World trade in manufactures*						
(i) World exports of manufactures, millions of dollars f.o.b.	1960	65,608	55,046	2,519	7,321	269
	1961-1965	84,593	70,211	3,460	...	392
	1966-1969	133,361	114,296	6,545	...	855
	1968	140,720	118,400	6,920	...	900
	1969	165,120	139,670	8,380	16,040	1,080
(ii) Percentage share in world exports	1960	100.0	83.9	3.8	11.2	0.4
	1969	100.0	84.6	5.1	9.7	0.7
(iii) Cumulative annual growth rates 1960-1969						
Manufactures		10.8	10.9	14.3	9.1	16.7
Primary commodities		5.7	5.9	5.8	8.1	4.5
(iv) Percentage share of exports of manufactures in total exports of goods	1960	51.3	64.4	9.2	56.4	3.1
	1969	60.5	72.3	16.8	58.3	8.0
(B) *Intra-area trade in manufactures*						
(i) Intra-area exports of manufactures, millions of dollars f.o.b.	1960		35,316	1,075	4,794	58
	1969		103,530	2,755	11,015	500
(ii) Percentage share of total exports	1960		64.2	42.7	65.5	21.7
	1969		74.1	32.9	68.7	46.3
(iii) Growth rate 1960-1969						
Inter-area exports			12.7	11.0	9.7	27.5
Exports to countries outside the region			5.8	16.3	7.9	10.7

SOURCE: ECLA, based on the United Nations *Monthly Bulletin of Statistics.*

[a] SITC sections 5, 6, 7 and 8, excluding division 68.

per cent), with only a small percentage to the socialist countries (2 per cent).

With regard to the changes in the behaviour of the socialist countries towards the international market, it may be mentioned that the economic reforms taking place in these countries as a result of the process of scientific and technological progress tend to create conditions which will certainly continue to lead to closer trade relations with the developed countries and to some extent with the developing countries too.[2]

Analysis of the evolution of international trade over the last decade shows a weakening in the position of the United States; this is important for Latin America because it indicates: (1) the appearance of new, more dynamic centres of world trade, (2) a weakening of the North American market, which is still the main customer for Latin American manufactures and (3) the *modus operandi* of the outward expansion of the big United States enterprises.

In the same connexion it is interesting to note that in addition to their slow growth, the industrial exports of the United States made up a smaller fraction of industrial exports as a whole than the exports of other developed countries and showed a tendency to decrease. In 1968, primary commodities made up 38 per cent of United States exports; in the same year the corresponding proportions were 29 per cent in France, 13 per cent in the Federal Republic of Germany, 21 per cent in Italy and 9 per cent in Japan. In all these countries the above percentages are tending to decrease, whereas for the United States there are some indications that the percentage could increase.

In addition to the above, there has been a strengthening of the relative position of Japan and a change in the nature of its external trade. At the end of the war, the main market for Japan's exports of manufactures, which were not generally characterized by an advanced technological content, were the developing countries, especially in Asia. Through a strategy whose main aim was the increase of the country's competitive capacity in the international market, however, Japanese exports have reached a point where they can enter the markets of the developed countries with equipment and final products of high technological content. Finally, brief mention should be made of another characteristic aspect of international trade relations and the rise and consolidation of various regional groupings. Generally speaking, considerable increases are to be observed in intra-area exports as far as total exports are concerned between the EEC countries, the AELI countries (although to a lesser degree), the United States and Canada, and the countries belonging to the Council for Mutual Economic Assistance (CMEA). In the developing regions, on the other hand, perhaps with the sole exception of Latin America, intra-area exports achieve much lower levels than in the above-mentioned groupings.

(b) *The share of Latin America*

The most distinctive features of Latin America's external trade in manufactures and its share in the world market are as follows:

(i) Marginal supplier of little importance;
(ii) High degree of concentration of Latin American trade with regard to geographical areas;
(iii) Sharp differences between the structure of exports of manufactures within the region and that of exports to developed countries;
(iv) Little diversification of exports of manufactures;
(v) Little dynamism in exports of traditional manufactures;
(vi) Loss of established markets for some traditional Latin American products in developed countries, and
(vii) Rare development on a permanent basis of new lines of products sold outside the region.

Latin America continues to play a very small role in the world manufactures market, its main activity being that of a marginal supplier, with a *trade balance in manufactures* with the developed countries that has traditionally been in deficit and is tending to increase. Another important feature of Latin American exports of manufactures to the rest of the world is their heavy geographical concentration, although this has lessened over the last few years (see table 2).

In 1960, 73 per cent of Latin American sales of manufactures were to developed countries and 22 per cent were intra-area, with practically no trade at all with other developing areas or with the socialist countries. In 1969, sales to the developed countries dropped to 50 per cent of the total, which trade between the Latin American countries increased to 45 per cent; the situation regarding the socialist countries and other developing areas did not change, as in 1969 exports to these markets continued to be practically non-existent.

It is clear from the above that the developed countries constitute a very important market for purchasing Latin American manufactures and that although the share of the region in

[2] See *Review of trade relations among countries having different economic and social systems*, UNCTAD TD/128, 1968.

Table 2

LATIN AMERICA: EXPORTS OF MANUFACTURES[a] ACCORDING TO DESTINATION

Period or years	*World total*	*Developed countries*	*Developing countries*	*Socialist countries*	*Latin America*	*United States*	*Western Europe*	*Japan*
				A. *Millions of dollars f.o.b.*				
1960	269	197	68	4	58	—	—	—
1961-1965	392	215	163	9	150	149	52	10
1966-1969	855	418	420	19	399	266	120	14
1968	900	414	462	22	439	298	102	14
1969	1,080	536	520	24	500	328	177	22
				B. *Percentage share in total for each area of destination*				
1960	100	73	26	1	22	—	—	—
1961-1965	100	55	42	2	38	38	13	3
1969	100	50	48	2	46	30	16	2
				C. *Cumulative annual growth rate*				
1960-1969	16.7	11.8	25.2	22.0	27.5	14.1[b]	22.2[b]	14.1[b]

SOURCE: United Nations, *Monthly Bulletin of Statistics*, March and May 1967 and 1971 and June 1971.

[a] SITC sections 5, 6, 7 and 8, excluding division 68.
[b] 1961-1969.

the developed countries' imports of manufactures is almost insignificant (in 1969 barely 1.2 per cent of imports came from Latin America), any change in the percentage of these imports would have marked repercussions on the volume of Latin American exports.

An analysis of the types of manufactures exported to the developed countries and of those exported to the developing countries of Latin America brings out some sharp differences.

Sales to the developed countries, although on a larger scale, are mainly of traditional manufactures, mostly with a low degree of processing (canned fruit, sawnwood, tinned meat, etc.) while the region itself absorbs the more finished manufactures or those of greater added value, such as synthetic rubber, polyethylene, cellulose acetate, sodium tripolyphosphate, carbon black, mechanical and metal manufacturing products, calculating machines and typewriters, lathes, sewing machines, etc.

The above shows how little diversification there is in Latin American exports, especially those destined for developed countries. Sales with large individual values are still few in number and even fewer at the individual country level, for with the exception of Mexico, Argentina and Brazil, the sales of the other Latin American countries are based on 10 or less manufactured products of any significant value. The three countries mentioned account for about 70 per cent of total sales of manufactures for the whole region (see table 3).

The lack of dynamism of Latin American exports to the rest of the world may be attributed to a combination of different factors, including the high proportion of traditional manufactures, the demand for which in the world market is growing more slowly, indeed, scarcely any faster than that for primary commodities; the small proportion of total exports accounted for by those manufactures for which there is more active international demand; displacement by other suppliers of developed markets in items which were traditionally part of Latin American sales (iron and steel products, textiles, wood, furniture, beverages, tobacco, etc.).

2. *Recent evolution and experience in Latin America*

(a) *Concerning exports to the markets of developed countries*[3]

Among the developed countries (see table 4), the United States stands out as the most

[3] See ECLA, *"El mercado de los países desarrollados para productos manufacturados americanos"* (ST/ECLA/Conf.37/L.24).

Table 3

LATIN AMERICA: EXPORTS OF MANUFACTURES[a] BY COUNTRIES OF ORIGIN

Country	*Millions of dollars f.o.b.*				*Percentages of total*		*Cumulative annual growth rate*
	1955	*1960*	*1965*	*1969*	*1960*	*1969*	*1960-1969*
Latin America	*185*	*269*	*544*	*1,080*	*100.0*	*100.0*	*16.7*
Argentina	33	30	84	220	11.2	20.4	25.0
Brazil	16	21	123	223	7.8	20.6	30.0
Mexico	76	92	164	302	34.2	28.0	14.1
Colombia	8	7	34	60	2.6	5.6	27.0
Chile	15	26	23	38	9.7	3.5	4.3
Peru	2	6	6	11	2.2	1.0	7.0
Venezuela	13	24	21	30	8.9	2.8	2.5
Ecuador	3	1	3	3[b]	—	—[b]	14.8[c]
Paraguay	7	4	5	4[b]	1.5	—[b]	0.0[c]
Uruguay	4	9	11	28	3.3	2.6	
Costa Rica	—	—	16	32[b]	—	3.6[b]	13.5[c]
El Salvador	2	6	32	68[b]	2.2	7.6[b]	35.0[c]
Guatemala	2	4	26	41[b]	1.5	4.6[b]	30.0[c]
Honduras	1	1	6	15[b]	—	1.7[b]	40.0[c]
Nicaragua	—	2	13	19	0.8	1.8	28.0
Dominican Republic	1	5	3	5[b]	1.9	0.6[b]	0.0[c]

SOURCES: ECLA, based on official statistics from the countries and issues of the United Nations and International Monetary Fund, *International Financial Statistics*.

[a] SITC sections 5, 6, 7 and 8, excluding division 68.
[b] 1968.
[c] 1960-1968.

important purchasing market, both in terms of volume and variety of purchases (in 1968 the United States purchased 55 per cent of all Latin American manufactures exported to developed countries). The United States constitutes the main market for almost all groups of manufactures: thus, in 1968 it purchased between 70 and 90 per cent of Latin American sales of articles of clothing, textiles, iron and steel products and mechanical and metal manufacturing products; between 50 and 69 per cent of various light manufactures, leather and footwear and food products, and between 30 and 49 per cent of wood products, furniture and chemical products.

The United Kingdom, which in 1968 purchased 15 per cent of Latin American exports of manufactures, comes in second place. Its purchases, in decreasing order of importance, were food products, worked non-ferrous metals, beverages and tobacco products, chemical products, wood products and furniture, in percentages between 16 and 23 per cent of the total exported by the region.

West Germany is less important as a market, although its purchases of Latin American manufactures have increased more sharply than those of the other developed countries (at a cumulative annual rate of 16.9 per cent). The German market is second in size for leather and footwear (10 per cent) and for products of the mechanical and metal manufacturing industries (6 per cent).

The purchases made by France and the Netherlands (3.5 per cent of the total) are also sizable, although there are marked differences between them. France has been losing ground as a purchaser, with a decrease in purchases from 5.1 per cent in 1963 to only 3.5 per cent in 1968, and it purchases only a limited number of commodities such as processed tobacco (29 per cent), products of the mechanical and metal manufacturing industry (6 per cent) and leather and footwear (5 per cent). The Netherlands, however, has opened up its market to Latin American manufactures with great dynamism, and its purchases include chemicals, wood and furniture. The Japanese

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TRADE IN MANUFACTURES FROM AMERICA (EXCLUDING THE UNITED STATE

Groups of products	*Main selling countries and participation in total sales for America (excluding the United States and Canada) to the OECD in each group of commodities*							
	Name	*Per cent*	*Name*	*Per cent*	*Name*	*Per cent*	*Name*	*Per cent*
Food products	Argentina	45	Brazil	26	Mexico	11	Paraguay	5
Beverages and tobacco products	French Antilles	29	Cuba	18	Jamaica	18	British Territories in America	15
Wood products and furniture	Brazil	42	Mexico	21	Honduras	8	Jamaica	7
Rubber products	—		—		—		—	
Leather and footwear	Argentina	33	Uruguay	15	Brazil	13	Mexico	13
Textiles	Mexico	57	Colombia	21	Brazil	11	Haiti	4
Articles of clothing ..	Mexico	40	Jamaica	33	Trinidad and Tobago	13	—	
Chemicals	Mexico	24	Bermuda	17	Trinidad and Tobago	14	Argentina	14
Pulp, paper and paperboard	—		—		—		—	
Non-metallic mineral products	—		—		—		—	
Iron and steel	Brazil	34	Mexico	34	Argentina	20	Venezuela	7
Worked non-ferrous metals	Netherlands Antilles and Surinam	67	Chile	5	Mexico	7	Venezuela	7
Products of mechanical and metal manufacturing industry	Mexico	52	Argentina	23	Brazil	17	Netherlands Antilles and Surinam	4
Miscellaneous light manufactures	Mexico	69	Argentina	8	Venezuela	8	—	
TOTAL	Mexico	24	Argentina	24	Brazil	21	Trinidad and Tobago	4

SOURCE: ECLA, based on official data.
[a] Federal Republic of Germany.

market, whose purchases of Latin American manufactures have decreased in relative importance, mainly purchases worked non-ferrous metals (15 per cent), chemicals (6 per cent) and iron and steel products (2 per cent).

Argentina, Brazil and Mexico together account for 69 per cent of Latin American exports of manufactures and show a certain degree of diversification. In Mexico there are 35 export lines each with a value of more than 5 million dollars, and an even greater number of lines of lower value. Mexico is therefore the leading exporter of the region for several groups of manufactures, accounting for between 50 and 70 per cent of all sales to the developed countries of mechanical and metal manufacturing industry products and textiles and between 20 and 49 per cent of exports of articles of clothing, chemicals and wood products and furniture (see again table 4). Argentina is the leading seller of processed foodstuffs (45 per cent) and leather and footwear (33 per cent), while its sales of iron and steel products and chemicals are also considerable. Brazil is the main exporter of wood products and furniture (42 per cent), and of iron and steel products (34 per cent), while it also has

ND CANADA) DESTINED FOR DEVELOPED COUNTRIES, 1968

Main purchasing countries in the OECD and share in total purchases for America (excluding the United States and Canada), for each group of commodities									
Name	*Per cent*	*Name*	*Per cent*	*Name*	*Per cent*	*Name*	*Per cent*	*Name*	*Per cent*
nited States	53	United Kingdom	23	Germany[a]	6	France	2	Netherlands	2
rance	29	United Kingdom	21	United States	18	Spain	6	Canada	6
nited States	48	United Kingdom	17	Germany[a]	15	Netherlands	3	Denmark	3
—		—		—		—		—	
nited States	56	Germany[a]	10	Italy	10	France	5	United Kingdom	3
nited States	86	Canada	7	—		—		—	
nited States	87	United Kingdom	7	—		—		—	
nited States	42	United Kingdom	20	Netherlands	7	Japan	6	Germany[a]	4
—		—		—		—		—	
—		—		—		—		—	
nited States	86	Japan	2	Germany[a]	2	Sweden	2	—	
ermany[a]	37	United States	22	Italy	19	Japan	15	Norway	4
nited States	73	Germany[a]	6	France	6	—		—	
nited States	69	Spain	12	—		—		—	
nited States	54	United Kingdom	15	Germany[a]	7	France	3	Netherlands	3

an important share in food-stuffs, leather and footwear, articles of clothing and products of the mechanical industries (in percentages varying from 11 to 26 per cent).

Among the newer exports can be mentioned some chemical products such as hydrocarbons from Argentina and Trinidad and Tobago for the United Kingdom and West Germany; ammonia, anhydrous or in aqueous solution, from Trinidad and Tobago for the United States; antibiotics (penicillin, streptomycin, etc.) from Brazil and Argentina for the Netherlands and Ireland; iron and steel plates, bars, rods and tubing for the North American market from Argentina, Brazil and Mexico; calculating and accounting machines from Argentina; thermionic valves and tubes (hot cathode), photocells, transistors, etc., from Mexico, and electrical machinery and apparatus from Mexico and Brazil, all for the United States (see table 5).

(b) *Concerning exports to other countries of the region*

For the countries of Latin America, the regional market is of prime importance for exports of manufactures of greater added value; indeed, for some countries and products this is the only market available.

The biggest exporters, in decreasing order of importance, are Argentina, Brazil and Mexico, which together accounted for more than 45 per cent of total sales of Latin American manufactures to the region in 1968. Argentina is not only the leading exporter but also the biggest market for exports from the various countries; Mexico's imports of Latin American manufactures, in contrast, are rather small, as may be seen from Mexico's growing credit balances in its balance of trade in manufactures with the other countries of Latin America.

In the year in question, the main markets for Argentine exports were Brazil, Chile and Peru, which together purchased nearly 70 per cent of Argentina's total exports to the region. The main purchasers of Brazilian manufactures were Argentina, Chile and Mexico (75 per cent of the total), while Mexico, for its part, sold to a large number of countries, and this can be seen from the smaller share accounted for by its first three markets (Argentina, Venezuela and Chile, with a share of less than 40 per cent).

Table 6 indicates the main sales of manufactures by the Latin American countries to their own region.

3. *Improving access to markets*

In the Declaration of Lima, the Group of 77 set forth in the form of four points the objectives that should be achieved at the third session of UNCTAD with respect to exports of manufactures and semi-manufactures: (*a*) all schemes of generalized preferences should be brought fully into effect before the end of 1971 and such schemes should be expanded to include concessions to producers currently excluded from them; (*b*) consultations and negotiations on the elimination of non-tariff restrictions on products of interest to developing countries should be promoted and held; (*c*) measures of assistance should be adopted for the conversion of industries in the developed countries that may be adversely affected by imports from developing countries, and (*d*) restrictive business practices adversely affecting the trade of developing countries should be identified, with a view to applying the necessary corrective measures.

(a) *Schemes of generalized preferences*

The negotiating phase for systems of generalized non-reciprocal, non-discriminatory preferences in favour of the manufactures and semi-manufactures of the developing countries concluded at the end of 1970 in the UNCTAD Special Committee on Preferences. In accordance with Decision 75 (S-IV) of the Trade and Development Board, "preference-giving countries are determined to seek as rapidly as possible the necessary legislative or other sanction with the aim of implementing the preferential arrangements as early as possible in 1971".[4] Three of the arrangements entered into force in the second half of 1971: that of the European Economic Community on 1 July; that of Japan on 1 August and that of Norway on 1 October. The arrangements of Czechoslovakia, Denmark, Finland, Hungary, New Zealand, the United Kingdom and Sweden began to be applied from 1 January 1972, while Switzerland announced that its arrangements would enter into force on 1 March 1972. Austria's arrangements are scheduled to come into effect about the same time. No information is available on when Canada, the United States and Ireland, among the market economy countries, will put their arrangements into effect, nor when Bulgaria, Poland and the Soviet Union, among the socialist countries of Eastern Europe, will do likewise. This delay in the implementation of preferential arrangements by certain countries should not, however, continue to postpone a decision on appropriate machinery within UNCTAD for supervising the arrangements, since this would in turn delay the examination of their operation and thus defer the opportunity of making such modifications or additions as are necessary to ensure that these arrangements achieve their objectives. Among the issues to be considered are measures to enable the less developed among the developing countries to take full advantage of preferential arrangements, and the urgent need to evaluate the equivalent arrangements to be applied by the socialist countries, in view of the fact that the role of customs tariffs is somewhat different in a system of state trade. In decision 75 (S-IV), the Trade and Development Board also recognized the need to improve the initial concessions granted by preference-giving countries, noting that "efforts for further improvement of these preferential arrangements will be pursued in a dynamic context in the light of the objectives of resolution

[4] *Official Records of the Trade and Development Board, Fourth Special Session, Supplement No. 1, 12-13 October 1970.*

Table 5

LATIN AMERICA: RECENT EXPORTS[a] OF MANUFACTURES TO DEVELOPED COUNTRIES, 1968

(Millions of dollars)

SITC classification	*Product*	*Total value of exports*	*Main selling countries*		*Main purchasing countries*	
			Name	*Value*	*Name*	*Value*
651.4	Cotton yarn and thread, bleached, dyed, mercerized, etc.	10	Mexico	5	United States	9
			Colombia	3	Canada	1
			Brazil	2		
841.2	Women's, girls' and infants' outer garments, not knitted or crocheted	9	Mexico	5	United States	7
			Jamaica	1		
			Trinidad and Tobago	1		
512.12	Hydrocarbons and their derivatives (excluding styrene)	6	Trinidad and Tobago	4	United Kingdom	2
			Argentina	1	Germany[b]	2
512.85	Heterocyclic compounds (including nuclei acids)	2	Mexico	2	United Kingdom	1
513.61	Ammonia, anhydrous or in aqueous solution	17	Trinidad and Tobago	17	United States	13
					Denmark	3
					United Kingdom	1
541.3	Penicillin, streptomycin, tyrocidine and other antibiotics	5	Brazil	3	Netherlands	2
			Argentina	2	Ireland	1
671.5	Ferro-alloys	5	Brazil	4	United States	1
			Dominican Republic	1	Germany[b]	1
					Sweden	1
673.21	Bars and rods (excluding wire rod)	7	Argentina	7	United States	7
678.3	Tubes and pipes of iron (other than of cast iron)	6	Mexico	4	United States	4
			Argentina	2	United States	2
714.2	Calculating machines, accounting machines and similar machines incorporating a calculating device	9	Argentina	9	United States	9
729.3	Thermionic valves and tubes (hot cathode, etc.) excluding photocells, transistors, etc.	18	Mexico	16	United States	17
729.9	Electric machinery and apparatus, n.e.s.	7	Mexico	5	United States	6
			Brazil	2		

SOURCE: IDB, *La proyección externa de la industria en América Latina*, Regional report, Study Series No. 1, 1969.

[a] Items exported as from 1964 of a value of more than one million dollars.
[b] Federal Republic of Germany.

Table 6

LATIN AMERICA: MAIN EXPORTS OF MANUFACTURES TO THE REGION, 1967

(*Millions of dollars*)

NABALALC classification	*Product*	*Total value of exports*	*Main purchasing countries*	
			Name	*Value*
	Exports from:			
	Argentina			
20.02.2.01	Prepared olives	3.9	Brazil	3.8
49.01.1.01	Printed books, booklets, brochures, pamphlets and leaflets	7.5	All countries	
84.06	Internal combustion piston engines	3.8	Chile	3.7
84.52.01	Calculating machines	2.2	Brazil	1.7
84.53.0.01	Statistical machines	2.5	All countries	
87.06	Parts and accessories for motor vehicles	2.8	Chile	2.7
	Brazil			
73.13.1	Sheets and plates, of iron and steel, of different thicknesses	11.0	Argentina	9.9
84.51.1	Typewriters	3.1	Argentina	2.4
89.03.01	Special vessels	2.0	Trinidad and Tobago	2.0
	Mexico			
28.40.3.05	Sodium polyphosphate	2.3	Chile	2.1
29.39	Hormones, natural or reproduced by synthesis	4.4	Panama	3.1
30.03	Medicaments for internal use	2.0	Central America	1.4
38.19	Chemical products for use in industry	2.5	Argentina	1.4
49.01.9.01	Printed books and pamphlets	9.3	All countries	
	Colombia			
68.12.0.01	Pipes of asbestos cement	2.1	Venezuela	1.9
	Chile			
48.01.1.01	Newsprint	8.3	All countries except Bolivia and Central America	
48.01.9.05	Paper and paperboard	2.9	Argentina	1.0
			Brazil	0.9
74.04	Copper wire	4.2	Venezuela	2.7
	Venezuela			
73.18.2	Seamless tubes and pipes of iron or steel	4.8	Colombia	4.2
	Costa Rica			
31	Chemical fertilizers	2.8	Panama	1.2
			Nicaragua	1.0
	El Salvador			
38.11	Insecticides	3.7	Guatemala	1.6
			Honduras	1.0
			Nicaragua	0.9
48.16.0.01	Paper bags	3.4	Guatemala	2.1
55	Cotton fabrics	4.4	Guatemala	1.7
			Honduras	1.4
55.05.0.01	Cotton yarns and threads	4.3	Costa Rica	3.1
64.02.0.98	Footwear	2.8	Honduras	1.2

Table 6 (*continued*)

(*Millions of dollars*)

NABALALC classification	*Product*	*Total value of exports*	*Main purchasing countries*	
			Name	*Value*
85	Electrical machinery and equipment	3.5	Costa Rica	1.2
			Guatemala	1.0
31	Chemical fertilizers	2.2	Guatemala	2.0
	Guatemala			
34.05.0.99	Soaps	2.0	Costa Rica	0.6
			El Salvador	0.6
40.11.2	Rubber tires and inner tubes	2.7	El Salvador	1.2
55	Cotton fabrics	3.0	El Salvador	1.6
58.04.099	Other fabrics, n.e.s.	4.3	Nicaragua	1.2
			Costa Rica	1.0
	Honduras			
243.02.00	Wood, sawn, planed, tongued, of coniferous species	3.6	Jamaica	1.6
			El Salvador	1.0
	Trinidad and Tobago			
31.02.0.04	Ammonium sulphate	3.0	Jamaica	0.8
			Dominican Republic	0.6

SOURCE: ECLA, based on INTAL, *La proyección externa de la industria en América Latina.*
Note: Only includes items of a value of more than 2 million dollars.

21 (II) of the United Nations Conference on Trade and Development".[5]

The initiation of action to expand or improve concessions is thus a task that should be given priority attention. Among the aspects worth considering are the following:[6]

Although it is recognized that the preferences granted are temporary (initially for a period of 10 years), the fact that they can be withdrawn in whole or in part at any time creates a situation of uncertainty that has an inhibiting effect on activities or forms of production requiring relatively long lead times. It would therefore be advisable to establish some kind of procedure (perhaps within the standing machinery for supervision) to be followed in the event of the suspension or withdrawal of concessions, with the developing countries likely to be affected being given an opportunity to propose alternative measures.

Although the tariff exemptions or reductions granted to the developing countries should not hamper further progress in liberalizing world trade on the basis of most-favoured-nation treatment, it is essential to maintain a margin of tariff preference in favour of the developing countries vis-à-vis the developed countries. Accordingly, whenever developed countries reduce or eliminate the duties applicable under the most-favoured-nation clause, they should adopt measures to maintain a margin of preference in favour of the developing countries or adopt other measures to compensate for the elimination of this margin.

Saving clauses should be applied only in the last resort by the developed countries, and should be invoked only when all other possibilities for action have been exhausted. The main objective of preferential tariff arrangements is to step up the flow of imports of manufactures and semi-manufactures from the de-

[5] The commitments alluded to, namely, implementation of arrangements before the end of 1971 and efforts for the further improvement of concessions, were also incorporated in paragraph 32 of the International Development Strategy.

[6] The UNCTAD secretariat has prepared a report summarizing the characteristics and *modus operandi* of preferential arrangements, on the basis of the regulations adopted by the countries that have already implemented such arrangements or the offers communicated to the Special Committee on Preferences by countries that have not yet implemented them. See "The Generalized System of Preferences" (TD/B/124), dated 12 November 1971.

veloping countries, and if this increased trade flow gives rise to the suspension or withdrawal of concessions, or to the application of additional restrictive measures, this objective is automatically nullified. Generally speaking, the difficulties that a greater flow of imports may cause to industries or enterprises in the developed countries should be solved by governmental assistance programmes, as agreed in paragraph 35 of the International Development Strategy.

During the discussions leading up to the negotiation of the system of preferences—and even more afterwards, when the exceptions, limitations and saving clauses included in each scheme were made known—it was frequently said that the system would benefit only a few developing countries. This view was based, on the one hand, on general recognition of the fact that only a small number of developing countries are genuinely in a position to export manufactures and semi-manufactures and, on the other, on the reluctance demonstrated by the developed countries from the outset to include processed agricultural products in their preferential arrangements. To be sure, one of the objectives of preferential treatment in favour of the developing countries is to create incentives for the export of manufactures and semi-manufactures, but manufacturing activity in the majority of developing countries consists mainly or virtually exclusively of the processing of agricultural products or other raw materials —that is to say, exactly the kind of products with respect to which the developed countries are afraid to expose themselves to competition from more efficient producers. By way of illustration, it may be useful to look at the number of products—in Chapters 1-24 of the BTN—that are included in the preferential system of the European Economic Community. According to its official statement, the EEC granted concessions covering the importation of some 150 processed agricultural products (coming under chapters 1-24 of the BTN) to the value of approximately 30 million dollars from the developing countries.[7] If it is also considered that the preference consists of the reduction rather than the elimination of customs duties, it can be concluded that the preferential treatment granted to the products of interest to most of the developing countries is really of very limited scope.

In the case of the EEC it is relevant to consider that the shortcomings of the preferential treatment offered for processed agricultural products are due not only to the need to maintain a degree of protection for domestic production, but also to the need to maintain a margin of preference in favour of the Associated States of the Community. It is stated in this connexion in the EEC paper already referred to[8] that the Community's offer does not seem to be particularly bold as regards processed agricultural products, mainly because, while the concept of generalized preferences for manufactures is unanimously recognized at the international level, there is still far from unanimous acceptance at the moment of the concept of generalized preferences for processed agricultural products. The paper goes on to give other reasons for this that are more specific to the European Community and restrict its room for manœuvre. First of all, the way in which the agricultural markets are organized in the Community results in a substantial reduction in the possibilities of reducing customs duties or charges. Secondly, since processed agricultural products are of real and growing importance for the Associated African and Malagasy States and for the other States associated with the Community, providing generalized preferences for such products would represent an unacceptable dilution of the advantages which these countries enjoy within the markets of the European Community.

Another indication of the shortcomings of the EEC's preferential scheme may well be the fact that the quotas established for a number of products and countries were completely taken up within the first two months that the scheme was in effect.[9] The exhaustion of a country's quota in itself is perfectly reasonable, since it is a means of ensuring that a single country does not take up the entire preferential quota allocated to a particular product. Nevertheless, it is worth examining in detail whether the exhaustion of the quotas for certain products and countries is due, as may well be the case, to the fact that the quotas are too small. Another point that requires more detailed study is the question of the regulations regarding origin, some of which specify that the imported component of certain manufactures eligible for preferential treatment must not be

[7] See *"La Comunidad Europea y los países del tercer mundo", Documentos de la Comunidad Europea,* No. 13, September 1971, p. 8.

[8] *"La Comunidad Europea y los países del tercer mundo"*, op.cit., p. 9.

[9] According to information published in *Europe,* issues of 5 and 21 October and 4 November 1971.

greater than 5 per cent, which is an excessively small proportion.

It should be noted that the above comments on certain aspects of the EEC preferential scheme are not made in a critical spirit but are simply to illustrate the issues that will have to be examined and evaluated by the standing machinery for the supervision of preferential schemes, so as to ensure that such schemes really fulfil the objectives for which they were designed. It must be acknowledged, in this connexion, that the European Economic Community was the first trading area to put into effect a system of generalized preferences, and that months later many other developed market economy and socialist countries have not yet announced the starting date or coverage of their respective schemes.

The annex lists the products in BTN chapters 1-24 which the Latin American countries requested to be included in preferential systems, and indicates the countries that agreed to include them. The list, of course, only notes the countries in which the products were not already included in the preferential system, and it gives no indication of the effective coverage of the concessions granted (customs tariff exemptions, reductions, free tariff quotas, etc.) by some countries.

(b) *Reduction and elimination of non-tariff barriers*

Activities in the field of non-tariff barriers by the UNCTAD Committee on Manufactures and the GATT Committee on Trade in Industrial Products have led to a great deal of progress in the identification, classification and evaluation of the impact of such barriers on the developing countries' exports. The studies presented by the UNCTAD secretariat on a list of products considered to be of current or potential export interest to the developing countries describe a number of different non-tariff barriers standing in the way of each of them, while the compilation made by the GATT secretariat is based on approximately 800 notifications by its members, classified initially in five groups: (i) state trade; (ii) customs and administrative formalities in respect of imports; (iii) standards applicable to imported and domestically produced goods; (iv) quantitative restrictions and similar measures, and (v) restrictions on imports and exports through the pricing mechanism.

An initial examination of the notifications made to GATT revealed that non-tariff barriers were a generalized and multilateral problem for which either there were no suitable international standards, or in respect of which existing standards were not interpreted uniformly for all countries or were not fully applied. Other restrictions related to measures that, in the view of one or more countries, contradicted existing commitments. With a view to undertaking a more detailed analysis, the GATT Committee on Trade in Industrial Products agreed to prepare a selective list of the different types of barriers and to set up five working groups to explore the possibilities of adopting specific measures to eliminate or reduce them and formulating rules of conduct in the matter. Three types of restrictions were chosen from the selective list of measures and given priority for examination and study, namely (i) customs valuations systems and practices; (ii) international standards, with particular reference to packaging, labelling and marking, and (iii) import licensing systems. The fact that priority has been assigned to the study of these three types of restrictions does not mean that work will not continue on the other types.

This brief outline of the work that is being carried out in relation to non-tariff barriers shows that, within the standing machinery of UNCTAD and GATT, serious attention is being given to studying the kind of action that might be agreed upon to achieve progress in a field that has been virtually ignored in trade negotiations over the past 20 years. The two methods being used to study the issue (product-by-product in UNCTAD and by type of restrictions in GATT) are not mutually exclusive, although the former method would seem to offer the developing countries solutions over the short term since it concentrates efforts on a selective list of products of major export interest to them. The work of the UNCTAD Committee on Manufactures has been hindered, however, by the position adopted by some developed countries, namely that there should be no duplication of work being done by other bodies, which was the reason given for opposing the creation of an intergovernmental group to formulate specific proposals on the elimination and reduction of non-tariff barriers. A draft resolution presented by the developing countries, which did not obtain the support of the developed countries, was referred to the third session of UNCTAD. Action by the developing countries at this forthcoming session could be focused on two objectives:

The creation of an intergovernmental group of non-tariff barriers with a sufficiently flexible mandate to enable it to formulate specific proposals for the elimination or reduction of such barriers;

Agreement on a clearly defined programme of multilateral negotiations in respect of products of major export interest to the developing countries that are subject to non-tariff barriers, the removal of which would be assigned top priority.[10]

(c) *Adjustment assistance measures*

The effect of international measures designed to achieve a greater liberalization of trade and improved access to markets, in order to promote the expansion of the developing countries' exports, may well be seriously curtailed if the growth of such exports leads the developed countries to apply restrictions based on general saving clauses or on a criterion such as "market disruption". The recommendation in annex A.III.6 of the Final Act of the first session of UNCTAD noted that the developed countries should adopt programmes and measures designed to facilitate the adaption and adjustment of industries and workers where these might be adversely affected by increased imports from the developing countries, as a prerequisite for ensuring that the measures recommended in favour of the expansion of exports of manufactures and semi-manufactures by developing countries were fully effective. This recommendation took account of GATT experience in studying the application of restrictions based on the concept of "market disruption". At the time it did not prove possible to reach a solution acceptable to all the members of GATT, and consequently efforts to lay down rules in the matter were abandoned. Subsequently, the GATT Committee on Trade and Development set up a Group of Experts on Adjustment Assistance Measures with the task of analysing information on the measures the developed countries were applying or intended to apply to promote adjustments in their production structures so as to favour the expansion of trade in products of export interest to the developing countries and increase their imports from them. This implied a substantial change in the approach to the issue since, instead of trying to establish principles or rules for the application of restrictions on the grounds of alleged "market disruption", it was recognized that the solution lay in promoting the necessary structural adjustments in the industries or enterprises affected by competition from imports from the developing countries.

In this connexion, a distinction should be made between the problems that derive from an increase in imports of a product or product group and those that stem from an over-all disequilibrium in the balance of payments. In the former case, priority should go to measures for the adaptation and adjustment of the industries or enterprises affected and for the retaining of workers and their reorientation towards other activities; in the latter, although a balance-of-payments disequilibrium may be identified with an increase in imports, corrective measures should be directed, in the first instance, towards the monetary and financial aspects of domestic and international policy, and recourse should be had to existing international machinery to promote the restoration of equilibrium. In no event should restrictions be applied to imports from the developing countries for balance-of-payments reasons.

The International Development Strategy (paragraph 35) reiterated the undertaking of the developed countries to adopt measures and evolve programmes for assisting the adaptation and adjustment of industries and workers in situations where they are or may be adversely affected by increased imports of manufactures and semi-manufactures from developing countries. The UNCTAD Committee on Manufactures, when it examined the measures applied by some developed countries, noted that the measures adopted so far had been marginal in nature and that it was important to evolve programmes of broader scope, bearing in mind the prospects opened up by systems of tariff preferences for the exports of manufactures and semi-manufactures from developing countries.

(d) *Restrictive trade practices*

The UNCTAD secretariat has only relatively recently begun to look into the effect of restrictive trade practices on the trade of the developing countries. This issue, however, has been the subject of a great deal of discussion in the past. Chapter V of the Havana Charter was in fact

[10] The UNCTAD secretariat has prepared a number of studies on non-tariff barriers which have been examined in the Committee on Manufactures. See in particular "An analysis of the effects of non-tariff barriers in developed market economy countries on selected product groups of export interest to developing countries" (TD/B/C.2/R.2), dated 5 February 1971, and "Products or product groups of export interest to developing countries subject to non-tariff barriers in developed market economy countries" (TD/B/C.2/R.3), dated 30 December 1970.

the first attempt to establish standards on restrictive trade practices, which were defined as measures adopted by public or private enterprises that restrict competition, limit access to markets, or foster monopoly control. Around 1955, several developed GATT member countries proposed a revision of the General Agreement with a view to incorporating provisions to cover restrictive practices. Since it proved impossible to secure agreement on the revision, the Contracting Parties took a decision on Arrangements for Consultations on Restrictive Business Practices, under which any member country may request bilateral or multilateral consultations for the purpose of reaching a solution satisfactory to the interested parties.

This system of consultations has not proved to be a satisfactory procedure, as far as the interests of the developing countries are concerned, for in practice it is confined to trying to solve disputes between countries, when what is really needed is to identify the nature and form of restrictive trade practices and their effect on the trade of the developing countries. The study prepared by the UNCTAD secretariat[11] has this aim, and although it is preliminary in nature it contains a wealth of information on import cartels, agreements on regulations and contracts for the granting of licences for the use of trade marks, patents and non-patented know-how, and also an analysis of information supplied by a number of developing countries.

Action by the developing countries in this field could therefore be directed primarily towards providing firm support for the UNCTAD secretariat's work programme, co-operating more closely in such research as is required, and collaborating in the application of the domestic or international measures that are agreed upon.

4. *Supply factors and the operational framework*

In recent years, while world trade in manufactures has been growing at a rapid pace, Latin America has failed to penetrate the market to any great extent and has remained a marginal supplier of little importance.[12] This is attributable, *inter alia,* to the following:

(i) Latin America's exports of manufactures to markets in the developed countries consist of a small range of traditional products that have not gone through much more than the first stages of processing and for which world demand in the developed countries has grown at a significantly slower pace than for manuactures as a whole;

(ii) The Latin American countries have lost ground with some of their traditional exports to the developed countries which are continuing to be displaced by goods from other suppliers (iron and steel products, textiles, worked wood, beverages and tobacco, etc.);

(iii) The increase in demand from the developed countries has been for the more complex manufactures or those with a high degree of added value, for which Latin America does not possess either installed capacity of the right scale or cost and quality levels that would enable it to compete in world markets.

In view of the above, it is urgently necessary to orient Latin American supply, having regard to the resources available, towards those manufactures for which world demand is most dynamic, without of course neglecting those manufactures that have traditionally accounted for the bulk of its exports.

There is another set of obstacles, inherent in the structure of production, that limit the ability of Latin American industry to compete in world markets, such as:

(i) An industrial development strategy based on import substitution and using often indiscriminate and permanent protectionist measures has brought about imbalances in prices and productive systems;

(ii) Small productive units, with outdated or unsuitable equipment and insufficient technical, financial and management capability, are a dominant feature of industry;

(iii) Autonomous technological development is lacking and there are insufficient efforts to adapt and improve on imported technology;

[11] See "Restrictive trade practices", a preliminary report prepared by the UNCTAD secretariat (TD/B/C.2/104).

[12] In 1968, the developed countries as a whole purchased manufactures to the value of about 100,000 million dollars, of which Latin America supplied 1.2 per cent (1.1 per cent in 1963). See *"El mercado de los países desarrollados para productos manufacturados latinoamericanos"* (ST/ECLA/Conf.37/L.24).

(iv) Both monopolies and oligopolies exist in industry, which generally has a large amount of idle capacity and is unconcerned about the problems of industrial productivity and efficiency;

(v) The potential of international enterprises—which are in the most dynamic sectors of industrial activity—as export agents has now been fully utilized. These enterprises dispose of sufficient financial resources to enable them to take full advantage of economies of scale in production and distribution, as well as to undertake research to improve products and processes.

Added to the structural problems that have affected Latin American industry's ability to establish stable and significant export flows of manufactures, there are also other obstacles hampering the transport, distribution and marketing of manufactures. Domestic transport is costly, port facilities are inadequate, there are problems in handling and deliveries are irregular, all of which makes it difficult to co-ordinate the potential supply with effective export programmes. In some countries of the region, export financing and the lack of proper insurance facilities are key problems in expanding exports of manufactures, and these problems are intensified as a result of the terms that exporters in other regions are able to offer and the preferences of consumers for those sources of supply that offer the most advantageous terms for payment.

5. *Lines of action concerning industrial supply*

The Latin American countries are initiating a number of programmes and activities to re-orient industry with a view to supplying the world market. The success of these over the short and medium term will depend, *inter alia,* on the degree of development and efficiency achieved by the various branches of industrial activity, the size of the domestic market and the availability of natural resources in each country. In some countries, expanding export potential requires the partial or total restructuring of certain sectors or branches of industry; in others, where industrial activity is still at an early stage, the problem is how to create an industrial supply for the future. In order to modify the structure of industry, action is necessary in such areas as the following:

(i) *Level of protection:* In order to determine what modifications are required, it is necessary to gain a more detailed idea of the structure of industry, if necessary at the individual enterprise level.

(ii) *Legislation covering foreign enterprises:* In order to encourage foreign enterprises to start exporting or to expand their exports, particularly to the developed countries, to plan their future export activities and to allocate to plants established in the region the production of goods which will help to disseminate technology to local industry, a number of formulas may be considered, including linking the facilities given for the remittance of profits by such enterprises to their export performance.

(iii) *Priority sectors:* In selecting the sectors of industry with the best export prospects, the Latin American countries should take into account: (*a*) the short-term demand prospects; (*b*) the degree to which each sector is connected with the rest of the productive structure; (*c*) the relative share of national and foreign enterprises in each sector, and (*d*) labour, capital and foreign exchange requirements.

(iv) *Financing of projects:* The possibilities of exporting manufactures are usually determined at the time when investment projects are formulated. It will be of little use establishing a system of export incentives and setting up specialized bodies if industrial supply remains bound to the patterns of the domestic market. Hence, in the criteria used in evaluating projects, export considerations should receive just as much weight as is assigned to them in development plans and programmes.

Annex

PRODUCTS CORRESPONDING TO CHAPTERS 1 TO 24 OF THE BTN THAT HAVE BEEN INCLUDED IN THE GENERALIZED SYSTEMS OF PREFERENCES[a]

	EEC	*Japan*	*United Kingdom*	*Scandinavian countries*		*Austria*	*Canada*	*United States*	*Ireland*[b]	*Switzer-land*	*New Zealand*
				Norway	*Sweden*						
Section I. Live animals; animal products											
Chapter 2. Meat and edible meat offals											
02.01 Meat and edible offals of the animals falling within heading No. 01.01, 01.02, 01.03 or 01.04, fresh, chilled or frozen								x			
02.02 Dead poultry and edible offals thereof (except liver), fresh, chilled or frozen											
02.04 Other meat and edible meat offals, fresh, chilled or frozen								x			
02.06 Meat and edible meat offals (except poultry liver), salted, in brine, dried or smoked			x				x	x			
Chapter 3. Fish, crustaceans and molluscs											
03.01 Fish, fresh (live or dead), chilled or frozen								x		x	
03.02 Fish, salted, in brine, dried or smoked						x		x		x	
03.03 Crustaceans and molluscs, whether in shell or not, fresh (live or dead), chilled, frozen, salted, in brine or dried; crustaceans, in shell, simply boiled in water				x	x	x		x		x	
Chapter 4. Dairy produce; birds' eggs; natural honey											
04.03 Butter											
04.04 Chesee and curd											
04.05 Birds' eggs and egg yolks, fresh, dried or otherwise preserved, sweetened or not											
04.06 Natural honey								x			
Chapter 5. Products of animal origin, not elsewhere specified or included											
05.03 Horsehair and horsehair waste, whether or not put up on a layer or between two layers of other material				x	x	x				x	x
05.04 Guts, bladders and stomachs of animals (other than fish), whole and pieces thereof										x	
05.09 Horns, antlers, hooves, nails, claws and beaks of animals, unworked or simply prepared but not cut to shape, and waste and powder of these products; whalebone and the like, unworked or simply prepared but not cut to shape, and hair and waste of these products										x	x

Annex (*continued*)

	EEC	*Japan*	*United Kingdom*	*Scandinavian countries*		*Austria*	*Canada*	*United States*	*Ireland*[b]	*Switzer-land*	*New Zealand*
				Norway	*Sweden*						
05.15 Animal products not elsewhere specified or included; dead animals of chapter 1 or chapter 3, unfit for human consumption				x		x		x		x	
Section II. Vegetable products											
Chapter 6. Live trees and other plants; bulbs, roots and the like; cut flowers and ornamental foliage											
06.01 Bulbs, tubers, tuberous roots, corms, crowns and rhizomes, dormant, in growth or in flower								x			
06.02 Other live plants, including trees, shrubs, bushes, roots, cuttings and slips								x			x
06.03 Cut flowers and flower buds of a kind suitable for bouquets or for ornamental purposes, fresh, dried, dyed, bleached, impregnated or otherwise prepared		x									x
Chapter 7. Edible vegetables and certain roots and tubers											
07.01 Vegetables, fresh or chilled				x	x			x			x
07.02 Vegetables (whether or not cooked), preserved by freezing								x			
07.03 Vegetables provisionally preserved in brine, in sulphur water or in other preservative solutions, but not specially prepared for immediate consumption			x	x	x			x			
07.04 Dried, dehydrated or evaporated vegetables, whole, cut, sliced, broken or in powder, but not further prepared	x	x	x	x	x			x		x	
07.05 Dried leguminous vegetables, shelled, whether or not skinned or split			x					x			x
07.06 Manioc, arrowroot, salep, Jerusalem artichokes, sweet potatoes and other similar roots and tubers with high starch or inulin content, fresh or dried, whole or sliced; sago pith			x	x	x			x			
Chapter 8. Edible fruit and nuts; peel of melons or citrus fruit											
08.01 Dates, bananas, coconuts, Brazil nuts, cashew nuts, pineapples, avocados, mangoes, guavas and mangosteens, fresh or dried, shelled or not		x	x	x		x	x	x		x	x
08.02 Citrus fruit, fresh or dried			x	x		x		x			
08.03 Figs, fresh or dried		x	x	x		x					
08.04 Grapes, fresh or dried		x	x	x				x			x
08.05 Nuts other than those falling within heading No. 08.01, fresh or dried, shelled or not				x		x					

08.06 Apples, pears and quinces, fresh	
08.07 Stone fruit, fresh	
08.08 Berries, fresh	
08.09 Other fruit, fresh	
08.10 Fruit (whether or not cooked), preserved by freezing, not containing added sugar	x
08.11 Fruit provisionally preserved in brine, in sulphur water or in other preservative solutions, but not specially prepared for immediate consumption	x
08.12 Fruit, dried, other than that falling within heading No. 08.01, 08.02, 08.03, 08.04 or 08.05	x
08.13 Peel of melons and citrus fruit, fresh, frozen, dried or provisionally preserved in brine, in sulphur water or in other preservative solutions	x

Chapter 9. Coffee, tea, maté and spices

09.01 Coffee, whether or not roasted or freed of caffeine; coffee husks and skins; coffee substitutes containing coffee in any proportion	
09.04 Pepper of the genus *Piper*; pimento of the genus *Capsicum* or the genus *Pimenta*	x
09.05 Vanilla	
09.06 Cinnamon and cinnamon-tree flowers	
09.07 Cloves (whole fruit, cloves and stems)	
09.08 Nutmeg, mace and cardamoms	
09.09 Seeds of anise, badian, fennel, coriander, cumin, caraway and juniper	
09.10 Thyme, saffron and bay leaves; other spices	x

Chapter 10. Cereals

10.05 Maize

10.06 Rice
- A. In the husk or husked but not further prepared
- B. Other

10.07 Buckwheat, millet, canary seed and grain sorghum; other cereals

Chapter 11. Products of the milling industry; malt and starches; gluten; inulin

11.01 Cereal flours

11.02 Cereal groats and cereal meal; other worked cereal grains (for example, rolled, flaked, polished, pearled or kibbled, but not further prepared), except husked, glazed, polished or broken rice; germ of cereals, whole, rolled, flaked or ground

		x	x						
		x	x			x			
		x							
		x	x			x			
x		x	x	x		x			
x	x	x	x			x		x	
x	x					x			x
				x		x			
	x			x					x
x				x	x			x	x
								x	x
				x	x	x		x	x
x				x	x			x	x
x				x	x			x	x
x		x		x				x	x
x	x	x		x	x	x		x	x
		x							
						x			
	x					x		x	x
	x					x			x

Annex (*continued*)

	EEC	*Japan*	*United Kingdom*	*Scandinavian countries*		*Austria*	*Canada*	*United States*	*Ireland*[b]	*Switzer-land*	*New Zealand*
				Norway	*Sweden*						
11.03 Flours of the leguminous vegetables falling within heading No. 07.05	x		x								
11.04 Flours of the fruits falling within any heading in chapter 8	x		x			x		x			x
11.05 Flour, meal and flakes of potato											
11.06 Flour and meal of sago and of manioc, arrowroot, salep and other roots and tubers falling within heading No. 07.06			x							x	
11.07 Malt, roasted or not			x								
11.08 Starches; inulin			x					x			x
11.09 Gluten and gluten flour, roasted or not			x					x			
Chapter 12. Oilseeds and oleaginous fruit; miscellaneous grains, seeds and fruit; industrial and medical plants; straw and fodder											
12.01 Oilseeds and oleaginous fruit, whole or broken .... A. Groundnuts B. Copra C. Palm nuts and kernels D. Soya beans E. Linseed F. Cotton seeds G. Castor oil seeds H. Other						x		x			
12.03 Seeds, fruit and spores, of a kind used for sowing								x			
12.07 Plants and parts (including seeds and fruit) of trees, bushes, shrubs or other plants, being goods of a kind used primarily in perfumery, in pharmacy, or for insecticidal, fungicidal or similar purposes, fresh or dried, whole, cut, crushed, ground or powdered	x	x								x	
12.09 Cereal straw and husks, unprepared or chopped but not otherwise prepared											
12.10 Mangolds, swedes, fodder roots; hay, lucerne, clover, sainfoin, forage kale, lupines, vetches and similar forage products											
Chapter 13. Raw vegetable materials of a kind suitable for use in dyeing or in tanning; lacs; gums, resins and other vegetable saps and extracts											
13.01 Raw vegetable materials of a kind used primarily in dyeing or in tanning											

13.02 Shellac, seed lac, stick lac and other lacs; natural gums, resins, gum-resins and balsams ....

13.03 Vegetables saps and extracts; pectic substances, pectinates and pectates; agar-agar and other mucilages and thickeners, derived from vegetable products x

Chapter 14. Vegetable plaiting and carving materials; vegetable products not elsewhere specified or included

14.02 Vegetable materials, whether or not put up on a layer or between two layers of other material, of a kind used primarily as stuffing or as padding ....

14.03 Vegetable materials of a kind used primarily in brushes or in brooms (for example, sorgho, piassava, couch-grass and istle), whether or not in bundles or hanks ....

14.04 Hard seeds, pips, hulls and nuts, of a kind used for carving (for example, corozo and dom) ....

14.05 Vegetable products not elsewhere specified or included

Section III. Animal and vegetable fats and oils and their cleavage products; prepared edible fats; animal and vegetable waxes

Chapter 15. Animal and vegetable fats and oils and their cleavage products; prepared edible fats; animal and vegetable waxes

15.01 Lard and other rendered pig fat; rendered poultry fat

15.02 Unrendered fats of bovine cattle, sheep or goats; tallow (including *"premier jus"*) produced from those fats ....

15.04 Fats and oils, of fish and marine mammals, whether or not refined x

15.07 Fixed vegetable oils, fluid or solid, crude, refined or purified ....

15.12 Animal or vegetable fats and oils, hydrogenated, whether or not refined, but not further prepared ....

15.13 Margarine, imitation lard and other prepared edible fats x

15.14 Spermaceti, crude, pressed or refined, whether or not coloured x

15.15 Beeswax and other insect waxes, whether or not coloured x

15.16 Vegetables waxes, whether or not coloured x

Section IV. Prepared food-stuffs; beverages, spirits and vinegar; tobacco

Chapter 16. Preparations of meat, of fish, of crustaceans or molluscs

16.01 Sausages and the like, of meat, meat offal or animal blood ....

								x	
	x	x	x			x		x	x
						x		x	
				x		x		x	
								x	
				x				x	
	x				x			x	
x					x			x	
				x				x	
x		x		x	x	x		x	
x								x	
	x				x				
x	x							x	
x	x			x		x		x	
x	x							x	
					x	x			

	EEC
16.02 Other prepared or preserved meat or meat offal	x
16.03 Meat extracts and meat juices	x
16.04 Prepared or preserved fish, including caviar and caviar substitutes	x
16.05 Crustaceans and molluscs, prepared or preserved	x
Chapter 17. Sugars and sugar confectionery	
17.01 Beet sugar and cane sugar, solid	
A. Raw sugars	
B. Other	
17.02 Other sugars; sugar syrups; artificial honey (whether or not mixed with natural honey); caramel	
17.03 Molasses, whether or not decolourised	
17.04 Sugar confectionery, not containing cocoa	x
17.05 Flavoured or coloured sugars, syrups and molasses, but not including fruit juices containing added sugar in any proportion	
Chapter 18. Cocoa and cocoa preparations	
18.02 Cocoa shells, husks, skins and waste	
18.03 Cocoa paste (in bulk or in block), whether or not defatted	
18.04 Cocoa butter (fat or oil)	
18.05 Cocoa powder, unsweetened	
18.06 Chocolate and other food preparations containing cocoa	x
Chapter 19. Preparations of cereals, flour or starch; pastrycooks' products	
19.02 Preparations of flour, starch or malt extract, of a kind used as infant food or for dietetic or culinary purposes, containing less than fifty per cent by weight of cocoa	x
19.03 Macaroni, spaghetti and similar products	
19.04 Tapioca and sago; tapioca and sago substitutes obtained from potato or other starches	x
19.05 Prepared foods obtained by the swelling or roasting of cereals or cereal products (puffed rice, corn flakes and similar products)	x
19.08 Pastry, biscuits, cakes and other fine bakers' wares, whether or not containing cocoa in any proportion	x

(continued)

Japan	United Kingdom	Scandinavian countries		Austria	Canada	United States	Ireland[b]	Switzer-land	New Zealand
		Norway	Sweden						
X	X			X	X	X		X	X
X	X					X		X	
X	X	X	X	X		X		X	X
X		X	X	X		X		X	X
	X								
						X			
	X				X	X		X	X
	X								
				X					
X			X	X	X	X		X	
X			X	X		X		X	
X		X	X	X	X	X		X	
X	X				X	X			
	X				X	X			
	X								X
	X				X	X		X	X
	X					X		X	
X	X				X	X			

Chapter 20. Preparations of vegetables, fruit or other parts of plants

20.01 Vegetables and fruit, prepared or preserved by vinegar or acetic acid, with or without sugar, whether or not containing salt, spices or mustard x

20.02 Vegetables, prepared or preserved otherwise than by vinegar or acetic acid x

20.03 Fruit preserved by freezing, containing added sugar ... x

20.04 Fruit, fruit-peel and parts of plants, preserved by sugar (drained, glacé or crystallized) x

20.05 Jams, fruit jellies, marmalades, fruit purée and fruit pastes, being cooked preparations, whether or not containing added sugar x

20.06 Fruit otherwise prepared or preserved, whether or not containing added sugar or spirit x

20.07 Fruit juices (including grape must) and vegetable juices, whether or not containing added sugar, but unfermented and not containing spirit x

Chapter 21. Miscellaneous edible preparations

21.02 Extracts, essences or concentrates, of coffee, tea or maté; preparations with a basis of those extracts, essences or concentrates x

21.03 Mustard flour and prepared mustard x

21.04 Sauces; mixed condiments and mixed seasonings x

21.05 Soups and broths, in liquid, solid or powder form x

21.06 Natural yeasts (active or inactive); prepared baking powders x

21.07 Food preparations not elsewhere specified or included x

Chapter 22. Beverages, spirits and vinegar

22.03 Beer made from malt ....

22.05 Wine of fresh grapes; grape must with fermentation arrested by the addition of alcohol ....

22.06 Vermouths and other wines of fresh grapes flavoured with aromatic extracts ....

22.07 Other fermented beverages (for example, cider, perry and mead) ....

22.08 Ethyl alcohol or neutral spirits, undenatured, of a strength of 80 degrees or higher; denatured spirits (including ethyl alcohol and neutral spirits) of any strength

22.09 Spirits (other than those of heading No. 22.08); liqueurs and other spirituous beverages; compound alcoholic preparations (known as "concentrated extracts") for the manufacture of beverages ....

x	x	x	x	x		x		x	
x	x	x	x	x		x		x	x
x		x	x			x		x	
x	x	x	x		x	x		x	
	x					x		x	
x	x	x	x	x	x	x		x	
x	x	x	x	x	x	x		x	
x	x	x		x		x		x	
	x	x	x	x	x			x	x
x	x	x	x	x		x		x	
x	x	x	x	x				x	
x	x	x	x	x		x		x	
x	x			x	x	x		x	
x						x			
x									
x									
x						x			
x		x	x		x	x			

Annex (*continued*)

	EEC	Japan	United Kingdom	Scandinavian countries: Norway	Scandinavian countries: Sweden	Austria	Canada	United States	Ireland[b]	Switzerland	New Zealand
22.10 Vinegar and substitutes for vinegar		x	x	x	x			x			
Chapter 23. Residues and waste from the food industries; prepared animal fodder											
23.01 Flours and meals, of meat, offals, fish, crustaceans or molluscs, unfit for human consumption; greaves			x								
23.02 Bran, sharps and other residues derived from the sifting, milling or working of cereals or of leguminous vegetables			x				x				
23.03 Beet-pulp, bagasse and other waste of sugar manufacture; brewing and distilling dregs and waste; residues of starch manufacture and similar residues											
23.04 Oil-cake and other residues (except dregs) resulting from the extraction of vegetable oils											
23.07 Sweetened forage; other preparations of a kind used in animal feeding	x	x	x							x	
Chapter 24. Tobacco											
24.01 Unmanufactured tobacco; tobacco refuse											
24.02 Manufactured tobacco; tobacco extracts and essences											

[a] The table lists the products contained in chapters 1 to 24 of the Brussels Tariff Nomenclature (BTN) in respect of which Latin American countries requested preferential treatment: see UNCTAD, "Report of the Special Committee on Preferences on the first part of its fourth session" (TD/B/300, Annex 1), and "Report of the Special Committee on Preferences on the second part of its fourth session" (TD/B/329/Add.5). In the case of the EEC, Japanese and Norwegian schemes, the products listed and those enumerated in the officially approved lists that have been in effect since 1 July, 1 August and 1 October 1971, respectively: see UNCTAD, "Generalized System of Preferences" (TD/B/373/Add.1, 7 and 2 (Annex: Norway), respectively). In the case of the United Kingdom and Sweden, the products are likewise those enumerated in the officially approved lists scheduled to come into effect on 1 January 1972: see UNCTAD, "Generalized System of Preferences" (TD/B/373/Add.8 and 2 (Sweden) respectively). For the remaining countries, the list is based on the offers made in the Special Committee on Preferences: see UNCTAD, "Substantive documentation on the generalized system of preferences" (TD/B/AC.5/24 and Add. and TD/B/AC.5/34 and Add., revised).

[b] Ireland has no plans to grant any preferences on agricultural products contained in chapters 1 to 24 of the BTN. The importation of a large number of such products that are of interest to developing countries is already exempt from duty: see UNCTAD, "Substantive documentation on the generalized system of preferences" (TD/B/AC.5/24/Add.6).

IMPACT OF ECONOMIC GROUPINGS OF DEVELOPED COUNTRIES

The impact of economic groupings of developed countries on trade has been one of the main concerns of developing countries in recent years and has been given great attention by UNCTAD. At its first session, UNCTAD stressed the importance of this problem and recommended that "developed countries participating in regional economic groupings should do their utmost to ensure that their economic integration does not cause injury to, or otherwise adversely affect, the expansion of their imports from third countries, and in particular from developing countries, either individually or collectively".[1]

The Charter of Algiers adopted by the developing countries just before the second session of UNCTAD again stressed this question, highlighting the following points:

(*a*) Regional economic groupings of developed countries should avoid discriminating against developing countries' exports of manufactures, semi-manufactures and primary products (particularly temperate and tropical agricultural commodities);

(*b*) The expansion of such groupings should not increase the incidence of any discrimination;

(*c*) Regional economic groupings of developed countries should take measures to ensure freer access for the exports of developing countries.

The Trade and Development Board also analysed the problem at its last two sessions (tenth and eleventh) and decided to include it in the agenda of the third session of UNCTAD.

Lastly, in the Declaration of Lima, the three geographical groupings of developing countries expressed the regional views on this question, some of the Latin American countries insisting that the regional groupings of developed countries should base their policies vis-à-vis the developing countries on the principles of non-reciprocal and non-discriminatory preferential treatment, and such developed countries as had not already done so should accede to the commodity agreements in view of the generally adverse effects of the expansion of regional groupings of developed countries on the world markets for commodities.

[1] General Principle Nine of recommendation A.I.1.

A. RELATIONS WITH THE EUROPEAN ECONOMIC COMMUNITY

1. *General considerations*

Since the signing of the Treaty of Rome, Latin America has paid constant attention to its relations with the countries of the European Economic Community, endeavouring to ensure that its interests are not adversely affected as a result of the integration policies and machinery. Its concern is fully justified when it is considered that the Latin American countries currently sell over 20 per cent of their exports to the Community and that with the entry of the United Kingdom and other European countries it will be as important a market for Latin America as the United States.

The Latin American countries are at present concerned about three basic problems in their future trade relations with the Community:

(*a*) The common agricultural policy, which, by increasing EEC's self-sufficiency, is likely to restrict imports from third countries;

(*b*) The EEC's preferential agreements concluded with nearly all the Mediterranean countries and many African States. Most of these agreements are incompatible with the provisions of GATT, discriminate against third countries, and are in direct conflict with the desire for multilateralization of world trade, and

(*c*) The accession of new members, particularly the United Kingdom, which may affect Latin American agricultural exports if the basic principles of the common agricultural policy are extended to the expanded Community and the preference area spreads.

Prospects for more effective co-operation between Latin America and the Community have improved considerably in the last few months with the establishment of machinery for a continuing dialogue oriented on the basis of the objectives set forth in the Declarations of Buenos Aires[2] and Brussels. As stated in the joint document approved on 18 June 1971, the purpose of this machinery is to explore possible solutions to problems connected with their economic and trade relations with a view to working out non-preferential formulas for the expansion and diversification of reciprocal trade. The two meetings which have taken place thus far have made possible an exchange of views regarding future co-operation between the two regions and the identification of problems for discussion and solution. It is hoped that a joint meeting at the ministerial level can be held in 1972 to decide on specific measures concerning those points on which the consultation machinery has reached sufficient agreement.

After the first meeting of Ambassadors (June 1971) a joint Declaration was issued which stated, *inter alia,* that the dialogue initiated would serve to: explore the possibilities of solving problems connected with their economic and trade relations; find non-preferential formulas for the expansion and diversification of their trade, without prejudice to the benefits that might be accorded by the Communities under the generalized system of preferences; examine questions related to the defence of their own interests, without questioning their respective policies; provide a frame of reference to facilitate the development of relations between the Latin American countries and the Communities so that the dialogue would supplement, without impairing, the bilateral relations between one or more Latin American countries and one or more member States or the Community itself; examine certain questions discussed at international meetings and consider each party's responsibilities at the international level so as to make a positive contribution to the work of the organizations concerned without interfering in their activities.

The second meeting at the same level was held in December 1971, and at it the Latin American representatives expressed their views in a memorandum requesting the Community to define a global development assistance policy which would take particular account of the problem of the relatively less developed countries and the basic principles of the EEC's trade policy with respect to Latin America.[3]

The memorandum also stresses the need to study measures for remedying the potentially adverse effects of the United Kingdom's entry into the EEC on Latin American exports and to examine the problems connected with the implementation of the generalized system of preferences.

In the field of financial assistance, the Latin American countries proposed that a study should be made of the possible role of the European Investment Bank in the technical study and financing of development projects in Latin America, and of the possible establishment of a fund for Latin America. Lastly, the document refers to the preparation of scientific co-operation agreements between the Community and one or more Latin American countries.

In addition to the bilateral negotiations between Latin America and the European Economic Community in order to define the elements of co-operation between the two regions within a multilateral context, negotiations are being carried on with one or more Latin American countries in respect of special agreements to cover their requirements in terms of trade or technical and financial assistance, such as the non-preferential agreement recently concluded with Argentina, the opening of negotiations with Uruguay and initial discussions with Brazil and the Andean Group.

The agreement with Argentina, covering a period of three years, provides for the elimination of the variable levies on Argentine frozen meat for EEC processing industries, the cal-

[2] In the Declaration of Buenos Aires, adopted by CECLA in July 1970, measures are proposed for "placing on an institutional status at a high political level the dialogue between Latin America and the European Communities" in order to "study and make decisions on matters related to their relations, thus making possible the achievement of the mutually agreed objectives of the system to be adopted" and "agree on solutions, including the conclusion of sectoral or global agreements in the fields of commerce, financing, transportation and scientific and technological co-operation".

[3] In September 1971 the Commission transmitted to the Council, the European Parliament and the Economic and Social Committee a memorandum on Community policy regarding co-operation in the development of the third world, which is expected to open a far-reaching debate in the Community institutions on guidelines and mechanisms for a policy of co-operation with the developing countries.

culation of the quota under the General Agreement on Tariffs and Trade in terms of boneless meat and the announcement well in advance of the terms of the variable levy on chilled meat. Argentina undertook to maintain and steadily increase its regular meat shipments to the Community. A joint committee will continue to discuss possible tariff concessions for products of interest to Argentina and action which Argentina could take to encourage imports and promote investment from the EEC.

The Community is currently negotiating a non-preferential trade agreement with Uruguay under article 113 of the Treaty of Rome, which covers not only questions connected with reciprocal trade relations, but also financial and technical assistance. The Community is also expected shortly to initiate the negotiation of a non-preferential agreement with Brazil to facilitate Brazilian exports to the EEC and solve some financial and technical co-operation problems.

As regards the relations between the EEC and the Andean Group, it is felt that a joint committee would be a suitable forum for the discussion of problems of common interest and would permit a continuing dialogue between the Andean countries and the Community.

2. *Recent evolution of trade relations*

Latin America's exports to the European Economic Community increased by 7.1 per cent annually between 1961-1965 and 1966-1969: i.e., at approximately the same rate as the region's total exports during that period and considerably faster than its exports to other developed regions (United States 4.1 per cent, EFTA 3.2 per cent, and the socialist countries 5.3 per cent) except Japan (see table 1). In 1969 and 1970 Latin America's exports to the Community grew even more rapidly, so that such exports ranked second after those to Japan in rate of expansion, since intra-regional trade lost some of its dynamism in these two years, particularly 1970.

In spite of its considerably increased purchases from Latin America over the past decade, the EEC did not substantially increase its share in the region's exports, which merely rose from 20 per cent in the years 1961-1965 to 21.2 per cent in 1966-1969, owing to the great strides made by the Japanese market and intra-regional trade during that period.[4] The United Kingdom's entry into the Community in 1973 will have the effect of substantially increasing the relative importance of this market for Latin America, since, on the basis of the 1970 figures, the expanded Common Market is expected to absorb 26.6 per cent of the region's total exports. If trade continues to increase in volume as it has done in the past decade, in a few years' time the expanded Community might well constitute a market for Latin America as big as or even bigger than the United States market. Hence the importance attached to the probable effects of the expansion of the European Economic Community on Latin America's future trade flows.

The region's imports from the EEC rose by 8.7 per cent annually in the period 1961-1965 to 1966-1969, which was higher than the rate for Latin American imports from the United States (7.5 per cent) and EFTA (8.2 per cent). It was lower, however, than the growth rate for imports from new suppliers, i.e., Japan, the socialist countries and the Latin American countries themselves (see table 2).

Despite the appreciable growth of its sales to Latin America in 1961-1970, the EEC's share in the region's total imports actually declined slightly (from 18.8 per cent in 1961-1965 to 18.6 per cent in 1970). The trade balance between Latin America and the EEC is still very much in favour of the former, although the situation varies from country to country (see table 3).

A review of the trend of Latin America's sales of its main export commodities to the Community (see table 4) completes the picture of the over-all expansion which has taken place over the past decade.

Tropical products must be considered in the light of the growth of similar exports from the African States associated with the Community, which are direct and preferential competitors in that market. Latin America's coffee sales increased steadily between 1958 and 1969, when they accounted for 60.8 per cent of the Community's total imports compared with 53.1 per cent in 1958. Latin American banana exports also showed a satisfactory trend, their share of the EEC market increasing from 47.5 per cent in 1958 to 55.6 per cent in 1969. In both coffee and bananas the associated African States lost ground in the EEC market during the period under review. In contrast, Latin America's supplies of cocoa have taken a severe downturn owing to the steady decline

[4] Although its share in Latin American exports dropped from 34.3 to 30.1 per cent, the United States is still the main foreign market for the region.

Table 1

LATIN AMERICA: EXPORTS, BY MAJOR AREA OF DESTINATION

(*Millions of dollars, f.o.b.*)

Country or area	1961-1965	Percentage of total	1966-1969	1968	1969	1970	Percentage of total	Annual growth rate		
								1966-1969 / 1961-1965	1969 / 1968	1970 / 1969
United States	3,386	34.3	3,958	4,070	4,100	4,440	30.1	4.1	0.7	8.3
EEC	1,976	20.0	2,458	2,310	2,770	3,130	21.2	7.1	19.9	13.0
EFTA	1,035	10.5	1,148	1,133	1,250	1,300	8.8	3.2	10.3	4.0
United Kingdom	698	7.1	718	720	750	790	5.4	0.9	4.2	5.3
Japan	418	4.2	630	615	790	1,020	6.9	13.6	28.5	29.1
Latin America	810	8.2	1,355	1,440	1,600	1,700	11.5	17.5	11.1	6.3
Socialist countries	683	6.9	806	757	785	790	5.4	5.3	3.7	0.6
Others	1,552	15.7	1,968	1,385	2,215	2,370	16.1	7.7	59.9	...
World	9,856	100.0	12,323	12,430	13,510	14,750	100.0	7.2	8.7	9.2

SOURCE: United Nations, *Monthly Bulletin of Statistics*, various issues.

Table 2

LATIN AMERICA: IMPORTS, BY MAJOR AREA OF DESTINATION

(Millions of dollars, f.o.b.)

Country or area	Percentage of total	1961-1965	1966-1969	1968	1969	1970	Percentage of total	Annual growth rate		
								1966-1969 / 1961-1965	1969 / 1968	1970 / 1969
United States	40.6	3,502	4,430	4,660	4,810	5,650	37.4	7.5	3.2	17.5
EEC	18.8	1,620	2,118	2,230	2,440	2,810	18.6	8.7	9.4	15.2
EFTA	9.9	852	1,098	1,150	1,300	1,400	9.3	8.2	13.0	7.7
United Kingdom	5.0	436	506	540	580	680	4.5	4.8	7.4	17.2
Japan	4.1	352	591	600	800	990	6.6	17.5	33.3	23.8
Latin America	9.4	810	1,355	1,440	1,600	1,700	11.4	17.4	11.1	6.3
Socialist countries	8.0	690	919	965	1,020	1,045	6.9	9.3	5.7	2.5
Others	9.4	810	1,104	1,115	1,320	1,514	10.0	10.1	18.4	14.7
World	100.0	8,636	11,615	12,160	13,290	15,109	100.0	9.7	9.3	13.6

SOURCE: United Nations, *Monthly Bulletin of Statistics*, June 1963 to June 1971.

Table 3

LATIN AMERICA: TRADE WITH EEC (EXPORTS, IMPORTS AND TRADE BALANCE)

(Millions of dollars)

		1961-1965	1966-1969	1968	1969
LAFTA .... TOTAL	E[a]	1,716.44	2,191.38	2,041.3	2,410.4[b]
	I[c]	1,488.30	1,835.25	1,899.7	1,998.8[b]
	B	228.14	356.13	141.6	411.6
Argentina	E	547.10	576.33	505.3	588.9
	I	345.74	299.08	275.7	393.4
	B	201.36	277.25	229.6	205.5
Bolivia	E	9.04	11.90[d]	11.3	...
	I	20.36	29.10[d]	30.8	...
	B	−11.32	−17.20	−19.5	...
Brazil	E	356.50	511.50	479.9	683.1
	I	251.96	382.05	447.1	503.7
	B	104.54	129.45	32.8	179.4
Colombia	E	102.82	126.95	138.3	140.1
	I	98.80	100.08	94.3	100.7
	B	4.02	26.87	44.0	39.4
Chile	E	166.50	341.80	299.4	393.8
	I	122.54	148.73	138.8	173.2
	B	43.96	193.07	160.6	220.6
Ecuador	E	30.78	56.63[d]	48.4	...
	I	35.28	49.77[d]	57.4	...
	B	−4.50	6.86	−9.0	...
Mexico	E	−49.02	78.68	60.8	80.3
	I	187.88	300.23	321.9	336.9
	B	−138.86	—221.55	−261.1	−256.6
Paraguay	E	5.36	8.68	9.1	10.4
	I	7.78	17.75	17.6	18.2
	B	−2.42	−9.07	−8.5	−7.8
Peru	E	181.50	227.08	232.2	254.8
	I	126.82	156.60	134.7	128.1
	B	54.68	70.48	97.5	126.7
Uruguay	E	61.14	53.48	46.1	68.3
	I	47.84	33.48	32.2	37.6
	B	13.30	20.00	13.9	30.7
Venezuela	E	206.68	198.35	210.5	190.7
	I	243.30	318.38	349.2	317.0
	B	−36.62	−120.03	−138.7	−126.3
CACM .... TOTAL	E	147.64	199.45	193.9	164.2[e]
	I	121.82	147.61	140.8	136.8[e]
	B	25.82	51.84	53.1	27.4
Costa Rica	E	27.18	27.90	24.2	33.8
	I	26.16	30.10	28.5	34.3
	B	1.02	−2.20	−4.3	−0.5
El Salvador	E	46.00	51.18	47.1	51.6
	I	34.02	37.15	33.8	36.7
	B	11.98	14.03	13.3	14.9

Table 3 (*continued*)
(*Millions of dollars*)

		1961-1965	1966-1969	1968	1969
Guatemala	E	36.42	43.30	35.2	49.7
	I	32.42	39.13	42.2	41.6
	B	4.00	3.17	−7.0	8.1
Honduras	E	12.54	47.87[d]	59.4	...
	I	10.72	15.60[d]	13.5	...
	B	1.82	32.27	45.9	
Nicaragua	E	25.50	29.20	28.0	29.1
	I	18.50	25.63	22.8	24.2
	B	7.00	3.57	5.2	4.9
Other countries	E	24.28	12.20	12.8	8.8
	I	60.19	54.40	58.1	...
	B	−35.91	−42.20	−45.3	
Panama	E	3.48	4.30[d]	6.8	...
	I	17.42	22.70[d]	25.2	...
	B	−13.94	−18.40	−18.4	
Dominican Republic	E	15.82	7.90	6.0	8.8
	I	27.42	31.70[d]	32.9	...
	B	−11.60	−23.80	−26.9	
Cuba	E	4.98	...	...	...
	I	15.35[f]	...	...	...
	B	−10.37			
TOTAL *19 countries* (excluding Haiti)	E	*1,888.36*	*2,403.03*	*2,248.0*	*2,583.4*
	I	*1,670.31*	*2,037.26*	*2,098.6*	*2,135.6*
	B	*218.05*	*365.77*	*149.4*	*447.8*
Caribbean countries TOTAL	E	*61.54*	*33.26*	*22.3*	*27.7*
	I	*53.14*	*63.68*	*62.9*	*62.9*
	B	*8.40*	*−30.42*	*−40.6*	*−35.2*
Barbados	E	...	...	...	...
	I	...	...	...	...
	B	...	...	...	...
Guyana	E	2.98	4.78	4.4	4.7
	I	7.86	13.35	11.8	11.5
	B	−4.88	−8.57	−7.4	−6.8
Jamaica	E	4.46	4.60	3.8	5.8
	I	29.28	33.65	36.7	33.4
	B	−24.82	−29.05	−32.9	−27.6
Trinidad and Tobago	E	54.10	23.88	14.1	17.2
	I	16.00	16.68	14.4	18.0
	B	38.10	7.20	−0.3	−0.8
Over-all TOTAL	E	*1,949.90*	*2,436.29*	*2,270.3*	*2,611.1*
	I	*1,723.45*	*2,100.94*	*2,161.5*	*2,198.5*
	B	*226.45*	*335.35*	*108.8*	*412.6*

SOURCE: *Direction of Trade Annual.*
[a] Exports f.o.b.
[b] Excluding exports and imports of Bolivia and Ecuador.
[c] Imports c.i.f.
[d] Average for 1966-1967 and 1968.
[e] Excluding exports and imports of Honduras.
[f] Average for 1961-1964.

Tabl

EUROPEAN ECONOMIC COMMUNITY: SHARES OF LATIN AMERICA ANI

(Million

		071 Coffee	072 Cocoa	051.3 Bananas [a]	011.1 Beef [a]	041 Wheat	044 Maize	081.4 Meat meal and fish meal
1958								
World		563.0	232.9	140.7	125.6	281.9	190.5	53.9
Latin America	(value)	299.2	32.0	66.8	38.7	30.9	66.9	16.3
	(percentage)	53.1	13.8	47.5	30.8	11.0	35.1	30.2
AAMS	(value)	161.2	75.6	48.5	1.0	—	1.1	—
	(percentage)	28.6	32.5	34.5	0.8	—	0.6	0.1
1962								
World		517.0	195.4	164.3	148.8	396.4	375.4	95.0
Latin America	(value)	313.2	17.2	66.7	44.3	81.3	122.2	73.6
	(percentage)	60.6	8.8	40.6	29.8	20.5	32.6	77.5
AAMS	(value)	119.3	59.8	28.7	0.6	—	—	—
	(percentage)	23.1	30.6	17.5	0.5	—	—	—
1966								
World		703.5	205.4	258.2	421.5	368.6	764.9	141.2
Latin America	(value)	407.1	11.9	126.8	118.1	45.6	235.2	96.6
	(percentage)	57.9	5.8	49.1	28.0	12.4	30.8	68.4
AAMS	(value)	152.5	76.1	56.2	1.6	—	—	0.2
	(percentage)	21.7	37.1	21.8	0.4		—	0.2
1968								
World		745.0	311.0	236.6	498.4	430.6	674.7	143.6
Latin America	(value)	4,440.0	18.2	126.0	69.7	39.8	167.9	86.1
	(percentage)	59.1	5.9	53.3	14.0	9.2	24.9	60.0
AAMS	(value)	169.2	114.3	48.6	1.0	—	—	—
	(percentage)	22.7	36.8	20.6	0.2		—	0.1
1969								
World		784.9	418.1	239.4	573.4	599.3	638.5	169.2
Latin America	(value)	477.6	22.1	133.0	106.4	41.7	179.4	115.6
	(percentage)	60.8	5.3	55.6	18.6	7.0	28.1	68.3
AAMS	(value)	163.7	170.6	46.0	1.2	—	—	—
	(percentage)	20.8	40.8	19.2	0.2	—	—	0.1
Percentage increase *1958-1969*								
World		39.4	79.5	70.1	356.5	112.5	235.0	213.7
Latin America		59.6	−31.0	99.0	174.8	34.7	168.2	608.9
AAMS		1.5	125.6	−5.1	24.3	—	—	475.8

SOURCE: OECD, *Foreign Trade*, Series B and C, 1958, 1962, 1966 and 1969.
Note: World figures include intra-Community trade.
[a] 1959.

in the production of some countries, notably Brazil. The share of Latin American suppliers in EEC's total imports of cocoa shrank from 13.8 per cent in 1958 to 5.3 per cent in 1969, while the share of African producers rose from 13.8 per cent to 40.8 per cent over the same period. It may be inferred from these figures that so far the preferences in favour of the African States which are members of the Yaoundé Convention have been no obstacle

HE ASSOCIATED AFRICAN AND MALAGASY STATES IN PRINCIPAL IMPORTS

dollars)

331 Petroleum	*263 Cotton*	*681 Silver*	*682.1 Copper for re-fining*	*Refined copper*	*281 Iron ore*	*121 Tobacco*	*262.01 Wool*	*Total*
1,830.6	659.4	66.1	487.8		423.2	215.5	455.4	5,727.0
178.3	132.2	18.9	80.0		181.2	18.8	28.7	1,189.5
9.7	20.0	28.7	16.4		42.8	8.7	6.3	20.8
10.3	53.0	—	119.4		—	9.8	—	480.6
0.6	8.0		24.5		0.1	4.6	—	8.4
2,459.8	642.1	120.6	779.5		520.7	317.6	583.2	7,316.1
197.4	216.9	19.5	49.2	105.2	101.9	28.3	63.0	1,500.7
8.0	33.8	16.2	6.3	13.5	19.6	8.9	10.8	20.5
15.2	34.6	—	113.7	44.9	—	7.5	—	424.9
0.6	5.4		14.6	5.8		2.4	—	5.8
3,871.3	647.3	224.2	1,519.5		613.6	349.8	558.6	10,648.3
143.2	217.3	39.6	74.8	169.2	109.5	33.6	51.7	1,881.0
3.7	33.6	17.7	4.9	11.1	17.8	9.6	9.3	17.7
16.0	33.3	—	242.3	31.6	57.1	7.1	—	708.3
0.4	5.1		15.9	2.1	9.3	2.0	—	6.6
5,249.5	603.9	416.8	1,608.4		715.6	312.6	412.4	12,359.1
175.1	168.0	46.1	93.9	214.2	123.9	23.4	35.0	1,830.0
3.3	27.8	11.1	5.8	13.3	17.3	7.5	8.5	14.8
10.0	52.9	—	257.1	85.8	49.5	3.4	—	792.4
0.2	8.8	—	16.0	5.3	6.9	1.1	—	6.4
5,704.9	589.4	400.3	2,099.7		804.8	388.0	491.1	13,901.0
181.2	243.3	37.0	79.4	335.4	151.4	35.4	30.5	2,170.2
3.2	41.3	9.3	3.8	16.0	18.8	9.1	6.2	15.6
19.0	56.4	—	156.1	294.9	55.6	5.0	—	971.1
0.3	9.6	—	7.4	14.0	6.9	1.3	—	7.0
211.6	−10.6	505.4	330.4		90.1	80.0	7.8	
1.6	84.0	95.1	418.3		−17.4	87.9	6.0	
84.1	6.4	—	277.6		19,340.0	−49.1	−51.5	

to the expansion of Latin America's sales of tropical commodities to the Community.

The situation is quite different in the case of temperate-zone agricultural commodities, particularly beef, wheat and maize. In spite of some appreciable increases in individual cases in the period 1958-1969, exports of these items suffered a net deterioration as regards their share in the EEC market. Thus Latin American sales of beef, which represented 30.8 per cent of the Community's total imports in 1958, dropped to only 18.6 per cent in 1969, although they increased by 174.6 per cent in value between the two years concerned. This product encountered its strongest competition from the meat produced in the Community itself, as a result of regulations stimulating internal supply and restricting imports from third countries.

Wheat and maize followed a similar trend. Latin America's share of EEC wheat imports dropped from 11 to 7 per cent between 1958 and 1969 and its share of maize imports fell from 35.1 to 28.1 per cent. In both cases the Community has achieved an increasing degree of self-sufficiency under the common agricultural policy to the detriment of its traditional suppliers, particularly Argentina in cereals, and Argentina and Uruguay in beef.

Imports of raw materials for industrial use from Latin America followed a highly irregular course in the decade under review: petroleum sales virtually stagnated, causing a severe setback in Latin America's share of the Community market (3.2 per cent in 1969 compared with 9.7 per cent in 1958), while cotton sales rose substantially and the value of copper sales increased rapidly, mainly as a result of the spectacular rise in prices. Exports of iron ore to the EEC registered a steadily downward trend, Latin America's share in the Community's total imports dropping from 42.8 to 18.8 per cent between 1958 and 1969.

Latin America has obtained an annual surplus of some 300 million dollars in its trade with the Community but this is considerably reduced and in practice even disappears altogether if account is taken of the region's deficits in respect of freight and insurance for its foreign trade activities (see table 5).

3. *EEC agricultural policy*

As the Community is the main world importer of agricultural products, the orientation and form of its agricultural policy have had and continue to have a substantial impact on world trade in such products and on Latin America's exports. The EEC absorbs 24 per cent of Latin America's exports of food-stuffs, beverages and tobacco and 25 per cent of its exports of agricultural raw materials. Looking at the figures for individual countries, the EEC market absorbs 40 per cent of Argentina's total exports, the corresponding figures for other countries being Chile 36 per cent, Ecuador, Honduras and Uruguay each 28 per cent, Peru 27 per cent, Brazil 26 per cent, El Salvador 25 per cent and Colombia 23 per cent.[5]

The common organization laid down under the Treaty of Rome for agricultural markets is designed to achieve certain internal objectives of the Common Market,[6] in particular the objective of raising the standard of living of the agricultural population in the EEC countries. The concern of the Latin American countries derives essentially from the fact that, because there is a protectionist barrier, these objectives are achieved at the expense of foreign producers. The level of protection given to EEC production is excessively high, for support prices are high and the EEC market is isolated from the world market by means of the system of variable levies. According to official information,[7] the level of protection in the Community in 1967 ranged from 60 per cent for maize through 100 per cent for durum wheat and 288 per cent for butter, to 338 per cent for cane sugar.

The policy of high domestic prices, strengthened by measures to assist exports and control imports, has led to a steady increase over the past few years in EEC production of a number of important items, such as sugar, cereals and milk products, at a much faster pace than the rise in consumption. This has led to the generation of sizable surpluses, part of which has been exported with the help of high subsidies, thus exerting a depressive effect on the world market and creating artificial competition for exports of similar products from Latin American countries. Over the past two years the EEC has endeavoured to resolve the problem of agricultural surpluses through more effective measures than simple subsidies, and it has managed to achieve some success with milk products, but this is no guarantee that there will not be a recurrence of what happened between 1966 and 1969 with milk products, particularly in view of the strong pressure exerted by agricultural circles in the Com-

[5] Only the exports of Argentina and Uruguay consist mainly of products coming under the common agricultural policy, although this policy does also have an impact on the exports of other Latin American countries.

[6] Article 39 of the Treaty states that the objectives of the common agricultural policy are to increase agricultural productivity, to ensure a fair standard of living for the agricultural population, to stabilize markets, to guarantee regular supplies, and to ensure reasonable prices in supplies to consumers.

[7] Société d'Editions des Coopératives La Fayette (SECLAF), *Le Plan Mansholt* (Paris, 1969).

Table 5

LATIN AMERICA: TRADE WITH MAJOR AREAS OR COUNTRIES
(EXPORTS, IMPORTS AND TRADE BALANCE)

(Milions of dollars, f.o.b.)

Country or area		*1961-1965*	*1966-1969*	*1968*	*1969*	*1970*
United States	Exports	3,382	3,958	4,070	4,100	4,440
	Imports	3,502	4,430	4,660	4,810	5,650
	Trade balance	−120	−472	−590	−710	−1,210
EEC	Exports	1,976	2,458	2,310	2,770	3,130
	Imports	1,620	2,118	2,230	2,440	2,810
	Trade balance	+356	+340	+80	+330	+320
EFTA	Exports	1,035	1,148	1,133	1,250	1,300
	Imports	852	1,098	1,150	1,300	1,400
	Trade balance	+183	+50	−17	−50	−100
United Kingdom	Exports	698	718	720	750	790
	Imports	436	506	540	580	680
	Trade balance	+262	+212	+180	+170	+110
Japan	Exports	418	630	615	790	1,020
	Imports	352	591	600	800	990
	Trade balance	+66	+39	+15	−10	+30
Latin America	Exports	810	1,355	1,440	1,600	1,700
	Imports	810	1,355	1,440	1,600	1,700
	Trade balance	—	—	—	—	—
Socialist countries	Exports	683	806	757	785	790
	Imports	690	919	965	1,020	1,045
	Trade balance	−7	−113	−208	−235	−255
Others	Exports	1,552	1,968	1,385	2,215	2,370
	Imports	810	1,104	1,115	1,320	1,514
	Trade balance	+742	+864	+270	+895	+856
World	Exports	9,856	12,323	12,430	13,510	14,750
	Imports	8,636	11,615	12,160	13,290	15,109
	Trade balance	+1,220	+708	+270	+220	−359

SOURCE: United Nations, *Monthly Bulletin of Statistics,* June 1963 to June 1971.

munity for a steady increase in the guaranteed prices.[8]

The most direct and alarming consequence of the common agricultural policy is the considerable rise in the Community's level of self-sufficiency. Between 1958 and 1968, the level of self-sufficiency for the agricultural sector as a whole rose from 83 to 90 per cent in terms of value, so that imports over the same period fell from 17 to 10 per cent of Community consumption. The most notable increases in the level of self-sufficiency were in wheat (from 91.3 per cent in 1958/1959 to 112 per cent in 1968/1969), cereals in general (from 84 to 94 per cent) and butter (from 99.3 to 113 per cent). With beef the trend was extremely irregular, the level of self-sufficiency rising between 1958/1959 and 1961/1962 (from 91.2 to 94.4 per cent), falling between 1962/1963 and 1965/1966 (from 92.2 to 83.5 per cent) and then rising again between 1966/1967 and 1968/1969, when it reached

[8] Farmers in the Community are endeavouring to obtain increases in agricultural prices ranging between 9.5 and 10.5 per cent over the next two years, with demands going as high as 15 per cent for beef.

89 per cent. The Community has also become a net exporter of such agricultural products as sugar, butter and powdered milk, and is a keen competitor of Latin American exporters in world markets.

For some time now within the EEC there has been recognition of the urgent need to revise and reorient the common agricultural policy, both because of its financial implications and also because of the fact that it has only partially achieved its social goals. Indeed, the system of guaranteed prices and subsidies seems to have favoured the large modern farms rather than the family-type low-yield farms which still make up the bulk of the agricultural sector in Europe. Because of this, several EEC members began in 1970 to link decisions on prices to the adoption of structural measures.

In April 1971, the EEC Council approved a programme of structural reforms which contains a set of technical and financial assistance measures designed to promote farms capable of achieving an adequate level of profitability, with assistance measures for farmers who give up farming. In the reorganization and modernization of the EEC agricultural sector, due regard will have to be paid to the specific interests of foreign producers, particularly those in the developing countries, that are traditional suppliers of agricultural products. In order to claim special consideration of their interests, the developing countries could invoke a number of legal, political and moral commitments undertaken jointly or individually by the international community and the developed countries, including the EEC countries. In the section of the present document on commodities, some of these commitments were referred to, including the standstill or *status quo* commitment, the abolition or reduction of tariffs and non-tariff barriers, priority for products of special interest to the developing countries, etc. These commitments, which are contained in many UNCTAD resolutions, in Part IV of the General Agreement on Tariffs and Trade and in GATT resolutions, and also in the International Development Strategy, have generally elicited three types of reservations from some countries of the Community: (*a*) that an over-all solution must be sought within the framework of a scheme for the world-wide organization of markets, the scope and content of which have not yet been sufficiently well defined; (*b*) that the commitments range only up to the limit of what is possible; and (*c*) that the dates given are simply indicative targets and not formal obligations.

It should, however, be pointed out that the Treaty of Rome itself contains certain provisions that reflect the aim of the EEC countries to further the liberalization of world trade.[9] This principle has been taken up in the various agricultural regulations, which include provisions noting that they will be applied with all due regard to the objectives laid down in both article 39 and article 110. Furthermore, from the outset the Community maintained that the common agricultural policy should take account of the fact that agriculture had a bearing on relations with third countries and emphasized that it was in the political and economic interest of the Community to maintain such relations, which led to a great deal of trade with the world as a whole. This fact alone prevents the Community from becoming a completely self-sufficient unit.[10]

The above points, which are only too well known, lead to the conclusion that it would be wise to avoid repeating discussions on general issues and instead put stress on specific proposal for the Latin American products affected by the common agricultural policy, either as a result of the Community's increasing level of self-sufficiency or as a result of its commercial action to dispose of surpluses on world markets. In the former case, as well as seeking internationally agreed formulas to limit the expansion of production or to discourage production (ceilings for support prices, guaranteed prices for specified volumes of production, etc.), it would also be advisable to emphasize formulas or operational measures to enable the developing countries, in the case of products of special export interest to them, to have a fixed or increasing share of the consumption or increases in consumption by the Community of certain products for which demand is dynamic, such as beef, cereals, feed grains and oilseeds.[11] In return, the Latin

[9] The Preamble expresses the desire to contribute "by means of a common commercial policy to the progressive abolition of restrictions on international trade", while article 110 states that "by establishing a customs union between themselves the Member States intend to contribute, in conformity with the common interest, to the harmonious development of world trade, the progressive abolition of restrictions on international exchanges and the lowering of customs barriers."

[10] See first report of the EEC Council on the common agricultural policy.

[11] The Declaration of Lima refers to this issue in the following terms: "Where products of developing countries compete with the domestic production of

American countries could undertake to establish effective controls over their minimum export prices to the Community and guarantee regular supplies.[12]

With respect to competition by the EEC and the depressive effect on the market resulting from subsidies to agricultural exports and the accumulation of huge reserves, special emphasis should be placed on the establishment or strengthening of bilateral or multilateral consultation machinery. In this connexion, the International Development Strategy provides that "the machinery for consultation on surplus disposal which existed during the 1960s will be widened and reinforced in order to avoid or minimize possible adverse effects of disposals of production surpluses . . . on . . . commercial trade".

Lastly, as regards promoting the liberalization of world trade in agricultural products, the EEC should be induced to agree to or to promote a special round of negotiations on agricultural products, including temperate-zone products, covering all issues affecting world trade in such products. It may be recalled that at the ministerial meeting of GATT in February 1970, the EEC representatives, when referring to the holding of a non-tariff Kennedy round, said that the international community should make up for lost time as regards the liberalization of trade in agricultural products and the removal of non-tariff barriers, and that a new order would not be amiss in these two areas. Similarly, Mr. Mansholt, speaking on behalf of the EEC Commission at an FAO meeting in November 1971, noted that international commodity agreements would only be useful to the extent that they were accompanied by an over-all reorganization of all the various agricultural policies. Acceptance of this principle should include the review of national policies for the protection and support of agriculture. Multilateral or bilateral agreements for liberalizing trade in agricultural products will be successful[13] only in so far as a set of multilaterally accepted principles and commitments can influence or limit the scope of the agricultural support policies pursued by the developed countries.

4. *The policy of preferential trade agreements*

Since 1961, when an agreement of association was concluded with Greece, the EEC has been establishing preferential trade relations with a growing number of third countries. This policy, the most recent manifestations of which have been considered a violation of the Community's legal commitments, especially within GATT, has gradually broadened the area of trade discrimination that the Latin American countries have to face and has increased Latin America's concern about its future relations with the European Common Market. In actual fact, there are various types of situations that have arisen, affecting Latin America in different ways. The régime of association established in the Treaty of Rome for 15 African States and Madagascar, subsequently expanded and extended by the Yaoundé Convention, defines the bases for close commercial and financial co-operation between a group of countries that enjoyed special relationships with EEC member countries which were their former metropolitan countries. On the commercial side, the EEC granted admission free of customs duties and quantitative restrictions to products from these countries, with the exception of the products coming under the common agricultural policy. In March 1970 preferential treatment was expanded to include a number of important agricultural products such as beef, oilseed products and processed fruit and vegetables, which had initially been excluded. Nevertheless, some of the margins of preference enjoyed by the Associated African and Malagasy States were reduced or cancelled out as a result of the reduction of duties on certain tropical-zone products[14] in the Common External Tariff (CET) and the implementation by the Community in July 1971 of the generalized system of preferences in favour of the exports of manufactures and semi-manufactures of the developing countries.

developed countries, each developed country should allocate a defined percentage of its consumption of such products to exports from developing countries. This allocation should be arrived at on a commodity-by-commodity basis through multilateral negotiations. In any case, developed countries should allocate a substantial share of any increase in their domestic demand for primary commodities for the exports of developing countries."

[12] The Agreement concluded between the EEC and Yugoslavia (1970) included this type of arrangement. The Agreement concluded with Argentina (1971) is based on the same principle.

[13] In a report discussing a programme for the liberalization of international trade (Vienna, April 1971), the International Chamber of Commerce presented a set of proposals designed to act as a basis for international negotiations on agricultural products.

[14] From January 1971, the CET for coffee was reduced from 9.6 to 7 per cent, and that for cocoa from 5.4 to 4 per cent.

Another group of African countries has entered or is about to enter into preferential relations with the Community. The Arusha Agreement, concluded in 1968 with Kenya, Tanzania and Uganda, provides for a substantial liberalization of mutual trade and allows free entry of the products of these three countries to the EEC, except for certain products which are subject to tariff quotas. Although it is somewhat more limited in scope, because of the quota system which curtails imports of some of the major African exports, the preferential arrangement made under the Arusha Agreement has increased trade discrimination against Latin American products. This situation might well deteriorate still further in the near future, when the régime of association is extended to other African countries, such as Ghana and Nigeria,[15] as a result of the United Kingdom's entry into the Community.

The EEC has also concluded preferential trade agreements with a number of European and African countries in the Mediterranean area (Spain, Israel, Yugoslavia, Malta, Morocco and Tunisia), and is about to conclude agreements with others (Egypt, Algeria, Lebanon and others). Table 6 shows the trend of Community imports from the Mediterranean countries since the entry into force of the Treaty of Rome. Some of the agreements concluded with countries of the Mediterranean area, such as the agreement with Yugoslavia, do not appear to be preferential in nature and even make mention of article I of the General Agreement on Tariffs and Trade, but in practice the details of the tariff concessions clearly show a discriminatory preference, inasmuch as it is well-nigh impossible for a third country to take advantage of them.

The recent proliferation of preferential agreements concluded by the Community has been severely criticized and contested within GATT. At the meeting of the GATT Council in October 1971, Canada, the United States and other Contracting Parties stated emphatically that the preferential trade policy of the Community jeopardized the basic principles of the General Agreement and stressed that agreements of the kind concluded by the EEC with Spain and Israel violated express provisions of the General Agreement and imperilled the multilateral nature of international trade. The United States announced its intention of proposing a thorough examination of the question of preferential agreements, with a view to determining the over-all effect and trade policy implications resulting from what it considered to be an attack upon the most-favoured-nation clause.

Criticism of the EEC's trade policy is not confined to technical matters but is also concerned with the political implications. For example, the regionalization of Community trade policy to cover the Mediterranean basin and Africa by means of a network of preferential agreements that may eventually cover virtually all the countries in those areas would have the effect, because of the economic weight of the Community itself, of creating a number of spheres of influence, and this might well result in the division of the world into economic blocs, each subject to the influence of one or more developed countries.

5. *The development of financial and technical co-operation*

(a) *Financial co-operation*

During the 1960s, the bulk of financial flows from the EEC consisted of transfers of official funds to Africa and Asia, with Latin America receiving only a very small part of this flow of resources. Most of the bilateral credits received by the Latin American countries from the EEC countries were on much less favourable terms than those recommended for the developing countries in general by UNCTAD and the OECD Development Assistance Committee (DAC).

At the international level, the EEC is, after the United States, the largest source of financing for the developing countries, with a net outflow of official and private resources amounting to 5,262 million dollars in 1969—40.7 per cent of the total funds made available by the DAC member countries that year.[16] France and the Federal Republic of Germany provide 75 per cent of the EEC's assistance resources. At the beginning of the 1960s, France provided twice as much as the Federal Republic, but from 1969 onwards this situation was reversed and the Federal Republic, with a volume of 2,046 million dollars, began to provide a greater amount of assistance to the developing countries. Net assistance by France in 1969 amounted to 1,742 million dollars, much the same as in 1968 (1,720 million) as

[15] The agreement concluded between the Community and Nigeria in 1966, of similar scope to the Arusha Agreement, never entered into force because it was not ratified, and it was not renegotiated.

[16] OECD, Efforts and Policies of the Members of the Development Assistance Committee, *Development Assistance: 1970 Review* (Paris, December 1970).

Table 6

EEC IMPORTS FROM COUNTRIES OF THE MEDITERRANEAN AREA, 1958-1970

(Millions of dollars)

	1958	*1960*	*1963*	*1967*	*1968*	*1969*	*1970*	*Annual growth rate 1958-1970*	*Percentage increase 1958-1970*
Spain	234	343	370	500	520	700	903	11.9	286.6
Greece	111	88	112	221	269	300	344	9.9	209.9
Turkey	95	141	181	215	207	243	279	9.4	193.7
Israel	30	58	110	125	159	186	194	16.8	546.7
Egypt	70	87	110	89	98	133	173	7.8	147.1
Algeria	473	549	666	717	771	817	859	5.1	81.6
Tunisia	128	99	159	110	95	94	113	−1.0	−12.8
Morocco	318	301	313	309	295	328	358	1.0	12.6
Yugoslavia ...	134	159	280	401	418	544	618	13.6	361.2
TOTAL	*1,593*	*1,825*	*2,301*	*2,687*	*2,832*	*3,345*	*3,841*	*7.6*	*141.1*

SOURCE: Statistical office of the European Communities, *Statistique Mensuelle, Commerce Exterieur,* 1971, No. 2.

against the 1,663 million provided by the Federal Republic in 1968.

More than half (approximately 57.2 per cent in 1969) of the financial resources provided by the EEC countries, which have been a dynamic factor in assistance to the developing countries, are supplied by the private sector, except in the case of France, where the public sector provides 60 per cent of the resources for assistance.

The small flow of official funds from the EEC countries to Latin America does not bear any relation to the volume of assistance supplied to the developing regions as a whole, or to the growing trade relations between the EEC and Latin America. Between 1960 and 1967, only 17 per cent of the resources Latin America received from the Community came from official sources, while the remaining 83 per cent came from the private sector through direct investment and supplier credits.

With respect to the machinery used by the EEC to channel external financial assistance, it should be noted that the European Investment Bank (EIB), the initial objective of which was to facilitate the economic expansion of the Community through the creation of new resources,[17] was subsequently authorized to extend its activities to cover the Associated States and territories. In authorizing it to do so, the Board of Governors indicated that the Bank could finance projects situated in other countries, which seems to open up the possibility of operating with countries under specific financial agreements. The European Development Fund (EDF) is the instrument used by the Community to finance projects in the African and Malagasy States signatories to the Yaoundé Convention. The Fund derives its resources from budgetary contributions by the member countries and grants assistance essentially in the form of grants and special long-term loans at low interest rates. There is also a European Social Fund, whose objective is to improve opportunities of employment of workers in the Community.

Part of the Community's official assistance resources for the developing countries is channelled through a number of multilateral agencies, for example through contributions to international financing agencies (IBRD, IDA, etc.), contributions and grants to technical assistance programmes (UNDP, World Food Programme, etc.), purchases by government agencies of bonds issued by international and regional institutions (IBRD, IDB, ADB), funds-in-trust arrangements as in the case of IDB, etc.

Over the last 10 years, most of the flow of resources from the Community to Latin Amer-

[17] Financing of projects for developing less developed areas of the Community, loans for modernizing or converting enterprises affected by the establishment of the Common Market, etc.

ica has been channelled through three financial mechanisms: (i) monetary stabilization credits, granted by European private banking groups to Latin American central banks to correct balance-of-payments disequilibria; (ii) credits for purchases of capital goods (supplier credits), often granted on the basis of credit lines opened by banking groups (public and private) or consortia in the seller country to State development agencies or banks in the purchaser country; and (iii) credits from financing or development agencies in Europe to similar agencies in Latin America to finance purchases of equipment and machinery for major development projects.

In practice, the most frequently used mechanisms have been normal supplier credits and intergovernmental credits for specific projects. The former are essentially a completely tied form of credit, with repayment periods ranging between two and seven years and interest rates of from 6 to 9 per cent. These terms impose a particularly heavy burden on the balance of payments of the recipient countries, and the tying of the credit frequently has an unfavourable effect on the actual price of the goods purchased with the credit. With intergovernmental credits, the credit may in exceptional cases be partially untied.[18]

To date, financial assistance by the EEC countries to Latin America has been circumscribed by the national measures and policies of the member countries. Co-ordinated action would make it possible to secure more efficient co-operation, to define the basic components of Community policy in the matter, and to establish specific terms and arrangements for credit more in line with the recommendations of UNCTAD and the DAC. Moreover, it would be desirable to secure the allocation to Latin America of a minimum proportion of the official financial flows to the developing countries from the Community, as a means of helping to reduce the cost of priority development projects. A co-ordinated effort should, also make it possible to secure a reduction in the tying of aid, at least within the Community, and authorization for resources to be used to purchase products or services within the beneficiary country itself or in other developing countries, particularly within the same region, in the same way that the United States has agreed under certain conditions for this to be possible with US-AID loans or loans from the Special Operations Fund of the IDB. Partially untying aid in this way would greatly help domestic or regional supplies of goods and services and, as a result, would further policies for the promotion and diversification of Latin American exports.

With respect to bilateral financing, it would be useful to review the current terms of supplier credits, with a view to promoting more widespread use of the purchaser's credit line system, under which a blanket loan is made by private banking consortia to a State agency in the recipient country, which is then in a better position to choose between suppliers.

One of the formulas being considered for channelling multilateral financial assistance from the Community to the Latin American countries is to use the European Investment Bank (EIB) either to float bond issues to tap loan resources in European capital markets, or to establish an EEC fund for Latin America, to be administered by the Bank.

Other formulas for multilateral co-operation could be: the establishment, under the administration of IDB, of a European investment fund for Latin America financed by contributions from the EEC countries; financial participation by the EEC in the IDB Pre-investment Fund;[19] or the allocation to IDB of resources to finance specific projects in the region.[20] Any of these three arrangements would help to expand and improve mutual trade and financial relations, since IDB finances purchases by the Latin American countries in the industrialized countries only to the extent that the industrialized countries provide it with matching amounts of funds.

The establishment of a similar kind of relationship between the EEC and subregional financial organizations such as the Andean Development Corporation and the Central American Bank for Economic Integration could act as a direct stimulus to integration movements, through the financing of multinational or national projects specifically designed to promote integration.

[18] The Institute of Credit for Reconstruction (KFW) in the Federal Republic of Germany, for example, makes this type of loan.

[19] The fund could be financed by means of a budgetary allocation transferring to the fund part of the customs duties charged on imports of certain commodities from Latin America and part of the domestic purchase taxes applied to such commodities. An arrangement of this kind was adopted by the Danish Government in 1967 when it established an industrialization fund for the developing countries.

[20] This formula has already been adopted by a number of European countries, such as Sweden, the United Kingdom and the Netherlands.

With respect to the future development of private investment in Latin America, it would be useful to develop information media giving potential European investors information on the economic, financial and technological characteristics of Latin American markets, and also analysing within a sufficiently broad framework the various terms that the Latin American countries would be prepared to apply to European investments (fiscal régimes, transfers, employment problems, guarantees, etc.) and the obligations that foreign companies would have to accept as regards achieving the development objectives of the recipient country (transfer of technology, training of labour force, etc.).

(b) *Technical assistance*

Stepping up the flow of technical assistance would offer extensive scope for co-operation between the EEC and Latin America, as well as for improving co-ordination and adapting European supply to the needs of the Latin American countries. The agreement concluded between the Community and Lebanon in 1965 is a useful example of the advantages of centralization in improving the efficiency of technical assistance.[21] The agreement gives some specific guidelines for participation by the Community in the training of specialists, the preparation of preliminary studies on the exploitation of natural resources, the co-operation of European experts, etc.

The Martino Report proposes that EEC technical assistance to Latin America should be adapted to suit the level of development of the recipient country. For the more advanced Latin American countries, it suggests co-operation with national agencies concerned with specific scientific fields, such as nuclear energy, oceanography, meteorology, etc., and points out that the results of such co-operation would be of use to both the Latin American and the EEC countries. Moreover, as the more advanced countries are probably in a better position to take advantage of the trade opportunities available under the generalized system of preferences, the Community might provide them with assistance in the promotion of their exports of manufactures and semi-manufactures at the production and marketing levels (market surveys, training of specialists, problems relating to quality and standards, etc.).

As the Latin American countries at an intermediate stage of development are for the most part members of the Andean Group, the Martino Report proposes that more assistance should be given to promote the integration of certain sectors, especially in connexion with the development of specific activities of particular interest within the framework of subregional integration, such as maritime transport and primary metal-processing.

With respect to the relatively less developed countries, the report suggests co-operation with regard to the infrastructure (telecommunications, transport, etc.), and in the case of the Central American countries, assistance designed to help integration industries.

By adapting the form of technical assistance to the specific conditions of the Latin American countries, bearing in mind their level of development, it should be possible to deal with the needs of each country or group of countries more efficiently. Furthermore, developing a wide range of assistance programmes would enable each member of the Community to participate in those sectors in which it has specialized knowledge and experience.

[21] The agreement established a mixed commission to examine Lebanon's requests for technical assistance and to determine the extent and terms of the ECC's co-operation.

B. THE EXPANSION OF THE COMMUNITY

As a result of the successful conclusion in June 1971 of the negotiations resumed in 1970 to establish the terms for the United Kingdom's entry into the EEC, the United Kingdom will, provided the agreements concluded in Brussels are approved by the British Parliament, officially become a member of the Community on 1 January 1973. This will mark the beginning of a five-year transitional period during which the United Kingdom will gradually have to bring into force the regulations of the Community. The terms of EEC membership for Ireland, Norway and Denmark have also been approved, but at the time of writing ratification by the appropriate legislative authorities was still pending.

Given the terms under which the United Kingdom is to join the Community, its entry will have a special impact on the Latin American countries, especially those for which the

United Kingdom is a major export market. One particular point worth emphasizing is that the United Kingdom has completely accepted the common agricultural policy and its basic regulations, and has undertaken to bring them gradually into force during a transitional period ending in 1975. Specifically, this will mean the adoption of the following basic principles: uniform prices throughout the expanded Community; absolute preference for Community agricultural production over imports from third countries; and responsibility of all Community members for financing the common agricultural policy. The main problem is how the United Kingdom will apply the price system prevailing in the Community, in view of the considerable differences at present existing between the levels of guaranteed prices in the EEC countries and with the United Kingdom. For example, for the crop year 1969/1970 the guaranteed price for wheat was 98.75 dollars per metric ton in the Common Market but only 68.50 dollars in the United Kingdom, while the difference was even greater in the case of milk products, the guaranteed price for butter being 1,735 dollars per ton in the Common Market as against 708 dollars in the United Kingdom.

In order to enable it gradually to bring its agricultural prices into line with those of the Community, the United Kingdom Government announced in November 1970 that it would begin to phase out the system of deficiency payments that has been in force since 1947, under which in essence producers were given a direct subsidy to make up the difference between the reference prices fixed each year by the Government and the prices on the domestic market in which imported products competed freely with domestic products. Under the United Kingdom system, consumers benefited from the best prevailing world prices, while under the EEC system consumers have to pay prices that are determined at the level of the Community producer.

The gradual equalization of United Kingdom agricultural prices with those of the Community during the period 1973-1976 is likely to have two main effects. First, the fact that the United Kingdom consumer will have to pay higher prices will probably depress domestic demand, especially for products whose consumption might otherwise have increased; and secondly, United Kingdom farmers will be encouraged to expand their output in order to take advantage of the new guaranteed prices. With regard to the first point, the marked rise in consumer prices for beef, cereals and milk products[22] is likely to make demand contract, or at least check its current rate of growth, and cause consumers to turn to cheaper agricultural products. As regards incentives to production it may be reasonably assumed that British agriculture, which is already highly modern and productive, will expand its investment in production facilities in order to derive the maximum benefit from higher agricultural prices, and this in turn will raise the level of self-sufficiency and correspondingly reduce import needs.[23]

In addition to the impact of EEC membership on British consumption and production of such commodities as beef, which are of particular export interest to certain Latin American countries, there is growing concern in the region regarding the application by the United Kingdom of the prevailing EEC system governing imports of agricultural products from third countries. From 1973, the United Kingdom is to subject its agricultural imports to the system of fixed customs duties and variable levies established by the Community regulations.[24] Moreover, the fact that the level of self-sufficiency will rise will have an impact not only on the British market but also, as a result of the preferences established within the Community, on the surpluses generated by other EEC members.

Latin America's prospects appear very discouraging as regards cereals and milk products, for which the potential rise in United Kingdom output, coupled with the combined productive capacity of the rest of the Community, will leave scant possibility of access for third countries. As production surpluses will be absorbed within the expanded Community market without the need for paying out export subsidies, the financial resources available for the structural reforms of agriculture in the EEC countries will increase. In the case of products of which the supply is inadequate even at the level of the expanded Community, the impact on Latin America's exports will

[22] According to some estimates, the price of beef in the United Kingdom may rise by between 50 and 70 per cent as a result of the adoption of Community prices, while the price of wheat may rise by between 70 and 80 per cent.

[23] The United Kingdom national development plan for 1965-1970 provided for a steady increase in agricultural production as a means of helping, *inter alia,* to improve the balance-of-payments situation.

[24] This will make it necessary to revise the concessions granted by the United Kingdom for such products within GATT, and also the counterpart arrangements negotiated by the countries benefiting from such concessions.

probably not be so severe, but even so it is not easy to determine the impact that import controls may have.

Another problem which directly affects Latin America's trade relations with the expanded Community is that of the future links between the Community and the countries and territories that enjoyed special relationships with the United Kingdom under the Commonwealth imperial preferences system. Owing to the great diversity of such countries and territories as regards current level of development and international trade position, a number of different solutions are being evolved to meet the most pressing specific problems faced by some of these countries as a result of United Kingdom entry into the EEC.

Among the developed Commonwealth members (Canada, Australia and New Zealand), New Zealand is the only country for which, after lengthy and complicated negotiations, special measures which are a derogation of the principles of the common agricultural policy were agreed upon in respect of two products.[25] All New Zealand's other agricultural products, and those of Canada and Australia, will gradually become liable to the import duties and charges established in Community regulations.

The Community also agreed to special treatment for British imports of sugar from the Commonwealth Caribbean countries, which currently enjoy preferential treatment in the United Kingdom market. The United Kingdom will be able to fulfil all its commitments under the International Sugar Agreement until the Agreement expires in 1974; subsequently the expanded Community will take measures to safeguard the interests of the Commonwealth Caribbean countries, whose economies depend to a large extent on exporting commodities, particularly sugar. The Commonwealth Caribbean countries do not have absolute assurances regarding the volume of sugar that will continue to enjoy preferential access to the British market after 1974, and this is why they have expressed concern at the possible expansion of beet sugar production in the expanded Community as a result of the high level of protection afforded by the Common External Tariff and the current amount of surplus production capacity. European producers may be expected to exert pressure on their Governments to restrict any special treatment for third countries to the minimum. On the other hand, there has been no mention of special treatment for bananas, which constitute the basic export product of several Caribbean countries, such as Jamaica, Grenada, St. Vincent, St. Lucia and Dominica, and which currently enter the United Kingdom free of tariff and non-tariff restrictions. If the Common External Tariff—the current level is 20 per cent—were to be applied to bananas, it might have very serious effects on this sector of the export trade of these Caribbean countries.

Mention should also be made of the Commonwealth African countries, which currently enjoy preferential access to the British market at reduced rates of duty in respect of a wide variety of tropical-zone primary and semi-processed products. The major imports eligible for such treatment are coffee (Kenya, Uganda, Ghana, Nigeria); leaf tobacco (Tanzania); fresh bananas (Ghana and Nigeria); ground-nuts (Nigeria, Zambia, Tanzania and Uganda); and palm oil (Nigeria). Some of these countries (Kenya, Uganda and Tanzania), as noted earlier, concluded a preferential trade agreement with the Community some time ago; however, the trade advantages granted under the Arusha Agreement, which came into force on 1 January 1971, are more limited than those granted to the African countries which are signatories to the Yaoundé Convention (for example, there are tariff quotas for Kenyan coffee). There is therefore a possibility that, during the discussions on special arrangements with the Commonwealth African countries, the three countries which have signed the Arusha Agreement will request that the preferences which they now enjoy should be expanded.

The general attitude within the Community has been in favour of establishing preferential arrangements similar to those in the Yaoundé Convention between the expanded Community and the Commonwealth African countries. However, the fact that some of the present EEC member Governments have insisted that the admission of these countries to the régime of association should not jeopardize the interests of the existing African Associated States might mean that an intermediate type of system will be evolved under which the Commonwealth African countries would receive benefits within the expanded Community comparable to

[25] At the end of the transitional period, the British market will continue to import on preferential terms 80 per cent of the volume of butter and 20 per cent of the cheese currently supplied by New Zealand.

those they now enjoy in the British market. In any case, serious consideration should be given to the possibility that new and extended preferential treatment for African products in the expanded Common Market may have the effect of turning aside some of Latin America's current exports of tropical-zone products to the EEC.

C. RELATIONS WITH THE UNITED STATES

1. *Trade relations*

During the period 1961-1965 to 1966-1969, Latin American exports to the United States grew at an average rate of 4.1 per cent per year, which is less than the growth rate of Latin American sales to the markets of other major developed countries (EEC, 7.1 per cent and Japan, 13.6 per cent) and to the region itself (17.5 per cent). Only exports to EFTA (increase of 3.2 per cent per year) grew more slowly (see table 7). Following a period of virtual stagnation in 1969 (an increase of barely 0.7 per cent), the region's exports to the United States grew by 8.3 per cent in 1970 (EEC, 13 per cent and Japan, 29.1 per cent), compared with a growth rate of 9.2 per cent for total exports.

As a result of this trend, the relative share of the United States market in the total exports of the region fell from 34.3 per cent in 1961-1965 to 30.1 per cent in 1970. This decline becomes all the more obvious if account is taken of Latin America's share in the total imports of the United States, which dropped from 28 per cent in 1950 to 21 per cent in 1960 and only 12 per cent in 1969. The slump in Latin American exports to the United States market can be clearly appreciated if it is borne in mind that, while the total imports of the United States grew by 140 per cent between 1960 and 1969, its imports from Latin America rose by barely 33 per cent during the same period.

Table 8 shows Latin American exports to the United States by sections of the SITC. Analysis of the table reveals the structural importance of basic commodities (sections 0 to 4), whose share varied from 87.5 per cent in 1961-1965 to 84.2 per cent in 1966-1969. Food, beverages and tobacco (sections 0 and 1 of the SITC) accounted for the same proportion of over-all exports (45.6 per cent in 1969 compared with 46.5 per cent in 1961-1965), while exports of fuel accounted for 25 per cent of total exports throughout the period under consideration. Latin American exports of basic commodities to the United States market over the periods 1961-1965 and 1966-1969 as a whole grew at the sluggish rate of 2.7 per cent per year.

Exports of manufactured goods (SITC sections 5 to 7) have increased much more quickly, reaching an annual average of 9.9 per cent for the decade considered, with an annual rate of 45 per cent for machinery and transport equipment, exports of which were negligible at the beginning of the period. However, there has been no great increase in the share of manufactures and semi-manufactures in total exports, despite the dynamic growth shown by the figures cited: their share was 15.4 per cent in 1969, compared with 11.9 per cent in 1961-1965. Table 9 presents the evolution of Latin American exports to the United States for a group of selected products. The figures in the table show a relative and sometimes absolute decline for some products (coffee, petroleum and petroleum products, etc.) and a particularly marked drop in the case of certain raw materials for industrial use (copper, lead, iron, wool, etc.). Thus, the share of certain Latin American products in the total imports of the United States fell between 1961-1965 and 1966-1969 from 29.5 to 21.2 per cent in the case of iron ore, from 49.6 to 30.7 per cent in the case of petroleum, from 58.1 to 45.3 per cent in the case of copper and from 40.4 to 36.1 per cent in the case of lead. During the same period, Latin American exports of food, including tropical products (except coffee), remained steady or showed improvement.

The decline in Latin America's position as a supplier of the United States market is bound up to a significant extent with changes in the structure of consumption and, hence, of the imports of that country; industrial products have tended to account for an ever-increasing proportion of United States imports. A study on the subject[26] indicates that over the period 1961-1962 to 1966-1967, one third of the difference between the increase in total United States imports (+66.9 per cent) and the increase in the value of United States imports

[26] IA-ECOSOC, *"Hacia una mayor participación latinoamericana en el mercado de los Estados Unidos"* (CIES/1376, 12 May 1969).

Table 7

LATIN AMERICAN TRADE WITH THE UNITED STATES

(Millions of dollars, f.o.b.)

	1961-1965	Percentage of total	1966-1969	1968	1969	1970	Percentage of total	Annual growth rate 1965-1969 / 1961-1965	Annual growth rate 1969 / 1968	Annual growth rate 1970 / 1969
Exports										
United States ..	3,382	34.3	3,958	4,070	4,100	4,440	30.1	4.1	0.7	8.3
EEC	1,976	20.0	2,458	2,310	2,770	3,130	21.2	7.1	19.9	13.0
Japan	418	4.2	630	615	790	1,020	6.9	13.6	28.5	29.1
EFTA	1,035	10.5	1,148	1,133	1,250	1,300	8.8	3.2	10.3	4.0
TOTAL	*9,856*	*100.0*	*12,323*	*12,430*	*13,510*	*14,750*	*100.0*	*7.2*	*8.7*	*9.2*
Imports										
United States ..	3,502	40.6	4,430	4,660	4,810	5,650	37.4	7.5	3.2	17.5
EEC	1,620	18.8	2,118	2,230	2,440	2,810	18.6	8.7	9.4	15.2
Japan	352	4.1	591	600	800	990	6.6	17.5	33.3	23.8
EFTA	852	9.9	1,098	1,150	1,300	1,400	9.3	8.2	13.0	7.7
TOTAL	*8,636*	*100.0*	*11,615*	*12,160*	*13,290*	*15,109*	*100.0*	*9.7*	*9.3*	*13.7*
Trade balance										
United States ..	−120	—	−472	−590	−710	−1,210	—	—	—	—
EEC	+356	—	+340	+80	+330	+320				
Japan	+66	—	+39	+15	−10	+30				
EFTA	+183	—	+50	−17	−50	−100				
TOTAL	*+1,220*	—	*+708*	*+270*	*+220*	*−359*				

SOURCE: United Nations, *Monthly Bulletin of Statistics*, June 1963 to June 1971.

Table 8

UNITED STATES: IMPORTS FROM LATIN AMERICA,[a] BY SITC SECTIONS

(Millions of dollars, f.o.b.)

SITC section	*Product*	*1961-1965*	*Percentage*	*1966-1969*	*Percentage*	*1968*	*Percentage*	*1969*	*Percentage*	*Latin America, average annual growth rate 1966-1969 / 1961-1965*
0 and 1	Food, beverages and tobacco	1,568	46.5	1,830	46.2	1,960	48.2	1,870	45.6	3.5
2 and 4	Crude materials	514	15.2	515	13.0	440	10.8	560	13.7	0.1
3	Fuels	872	25.8	988	25.0	990	24.3	1,020	24.9	2.9
	TOTAL *commodities*	*2,954*	*87.5*	*3,333*	*84.2*	*3,390*	*83.3*	*3,450*	*84.2*	*2.7*
5	Chemicals	51	1.5	66	1.7	62	1.5	54	1.9	6.0
6 and 8	Miscellaneous manufactures goods and articles	345	10.2	505	12.8	560	13.8	500	12.2	9.0
7	Machinery and transport equipment	8	0.2	42	1.1	51	1.3	79	1.9	45.0
	TOTAL *manufactures*	*404*	*11.9*	*613*	*15.5*	*673*	*16.6*	*633*	*15.4*	*9.9*
	Imports from Latin America[b]	*3,376*	*100.0*	*3,958*	*100.0*	*4,070*	*100.0*	*4,100*	*100.0*	*3.6*

SOURCE: United Nations, *Monthly Bulletin of Statistics*, March 1967-1971.

[a] Including Cuba.

[b] Including section 9 of the SITC.

from Latin America (+18 per cent) may be attributed to the region's relative loss of ground in the supply of products that it exported to the United States at the beginning of the period, while two thirds of the difference may be put down to the shift in United States demand for imports towards manufactured goods which Latin America is not yet in a position to supply. In other words, the unfavourable trend of Latin American exports to the region's principal market must be attributed to growing competition from other suppliers or to inadequate expansion of the region's productive capacity as well as to failure to adapt its export component to meet changes in United States demand.

To these structural factors should be added the effects of certain protectionist barriers in force in the United States, which have helped to restrict imports of certain commodities from Latin America. Although the United States has time and time again made itself a party to international and regional agreements concerned with the improvement of the terms of trade with the developing countries in general or the Latin American countries in particular,[27] the latter have made no significant progress towards securing the actual implementation of those agreements and have had to continue contending with the effects of restrictive United States legislation, which in some cases has actually worsened the conditions of access for their products. By way of example, mention may be made of the 1965 sugar legislation, which provided for an increase in the share of United States producers in the total supply of the country.[28] The legislation introduced in 1964, fixing quotas for imports of meat, is similar in character: its application depends largely on administrative decisions, and up to now it has been implemented mainly through voluntary restrictions on shipments of meat to which the principal foreign suppliers have been induced to agree from July 1970 onwards. In 1967 and 1968, the United States introduced quotas for dairy products which affected exports from Argentina, and in 1969 it strengthened these measures in respect of certain types of cheese. In the same connexion, mention should be made of the United States' efforts to persuade Brazil to increase the duty on the raw material used to produce soluble coffee which is exported to the United States, although such efforts violate the principle of co-operation with the developing countries to help them to increase the level of processing of their basic products. To sum up, it may be pointed out that in mid-1970, the following products were subject to import quotas in the United States:[29] wheat and wheat preparations (wheat flour, semolina, milled wheat); cotton and cotton waste; ground-nuts; dairy products; sugar; petroleum and petroleum products; cotton manufactures; coffee; fresh, chilled or frozen meat; and fresh, chilled or frozen fish.

Some decisions taken by the United States Government have, however, appeared to be aimed at fulfilling the agreements cited above. These included: the suspension of import quotas for lead and zinc ores and concentrates from October 1965; the reduction in 1966 of the controls and duties on imports of certain oilseed products and minerals; the offers made by the United States in respect of its application of the general system of preferences,[30] and certain concessions approved at the end of the Kennedy Round negotiations, such as the establishment of consultation and negotiation machinery within the inter-American system.

Examination of Latin American imports from the United States also reveals a reduction in that country's relative share in the trade of the region. Between 1961-1965 and 1970, the share of United States products in Latin American imports fell from 40.6 to 37.4 per cent (see table 7). Nevertheless, Latin American imports from the United States grew at an average annual rate of 7.5 per cent between 1961-1965 and 1966-1969, that is to say, twice as much as the region's exports to that country. During the same period, Latin American imports from the European Common Market grew by 8.7 per cent, from EFTA by 8.2 per cent and from Japan by 17 per cent.

[27] The removal of tariff and non-tariff barriers in favour of products of interest to the developing countries and the maintenance of the *status quo* in favour of such countries, are dealt with, *inter alia,* in the following agreements: (*a*) at the inter-American level: the Buenos Aires Protocol of 27 February 1967 and the "Declaration of the Presidents of America," signed at Punta del Este, on 14 April 1967; (*b*) at world level: the ministerial programme of GATT, 1963; new Part IV of GATT, Article XXXVII (1965); UNCTAD recommendations A.II.1 and A.III.4, etc.

[28] Circles in Congress urge that this trend be strengthened, on the basis of the new sugar law.

[29] See IA-ECOSOC/CECON, "*Leyes y reglamentaciones no arancelarias aplicadas por el Gobierno de los Estados Unidos,*" June 1970.

[30] President Nixon recently announced that the relevant bill would soon be sent to Congress.

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UNITED STATES: IMPORTS OF THE PRINCIP

(Millions

SITC group	Commodity	1961-1965 Latin America	Percentage	World	Latin Americ
011	Meat, fresh, chilled or frozen	39.7	14.4	276.4	81.9
013	Meat in airtight containers, n.e.s. and meat preparations	40.6	26.5	153.3	77.3
051	Fruit and nuts, fresh	130.5	65.3	199.8	220.6
054	Vegetables, fresh, frozen or simply preserved	32.1	49.9	64.3	90.0
061	Sugar	265.7	49.7	534.7	385.3
071	Coffee	828.3	79.6	1,040.0	739.5
072	Cocoa	50.1	32.2	155.4	75.1
262	Wool and other animal hair	61.5	23.6	260.6	39.1
281	Iron ore	135.9	38.5	352.7	143.2
283	Ores of non-ferrous base metals	104.5	29.5	354.7	94.2
331	Crude petroleum	547.4	49.6	1,104.7	496.0
332	Petroleum products	358.1	50.3	711.5	474.6
682	Copper	182.5	58.1	314.4	255.8
685	Lead	21.5	40.4	53.2	30.5
	TOTAL *sample*	*2,798.4*	*50.2*	*5,575.5*	*3,203.2*
	TOTAL *imports*	*3,496.4*	*19.9*	*17,572.6*	*4,216.4*
	TOTAL *sample percentage*	*80.0*		*31.7*	*76.0*

SOURCE: United Nations, *Commodity Trade Statistics*, 1961-1970.
[a] Latin America comprises the twenty republics, including Cuba.

The disparity between the trends in Latin American exports to and imports from the United States has resulted in the region having a marked trade deficit in recent years (see table 7). Thus, in the period 1966-1969, Latin America had an average annual deficit of 472 million dollars, four times higher than the deficit recorded in the period 1961-1965, while in 1969 and 1970 the deficit reached the very considerable amounts of 710 million and 1,210 million dollars, respectively. The growing deficit caused by the above trends in trade relations with the United States has to be offset from the surpluses obtained by the region in its trade with other developed areas or countries.

2. *Financial relations*

In the "Charter of Punta del Este" (1961), which initiated a programme of inter-American co-operation, it is stated that in order to achieve the goals set by the "Alliance for Progress" the Latin American countries should obtain "sufficient external financial assistance", and that such assistance should meet a series of conditions, including the following: (*a*) supply of at least 20,000 million dollars during the 1960s; (*b*) flexible conditions with respect to periods and terms of repayment and forms of utilization; (*c*) the greater part of the assistance should come from public funds, and (*d*) the assistance should be made available to supplement the domestic efforts of the recipient countries, in response to specific plans for institutional reforms and for the economic and social development of the Latin American countries. The United States expressly undertook to supplement the efforts of the participating countries and declared that it was prepared to allocate resources appropriate in kind and volume, in the form of subsidies or loans on sufficiently flexible conditions. A number of factors over the period 1961-1970 considerably hampered or restricted the fulfilment of these undertakings. Thus, there was a notable discrepancy between the amount of financing ɔMMODITIES FROM LATIN AMERICA AND THE WORLD[a]

llars, f.o.b.)

1966-1970		1969			1970			Latin America, average annual growth rate 1966-1970 / 1961-1965
ercentage	*World*	*Latin America*	*Percentage*	*World*	*Latin America*	*Percentage*	*World*	
17.2	475.7	97.8	18.0	544.6	118.2	18.3	647.7	15.6
26.4	293.2	87.4	27.8	314.1	95.4	26.3	362.6	13.8
69.4	317.7	224.6	68.7	327.0	241.7	70.5	342.9	11.1
75.3	119.5	104.5	77.5	134.8	142.2	80.1	177.6	22.0
57.7	668.1	401.5	58.6	685.6	445.1	56.9	782.0	7.7
68.6	1,078.1	644.6	68.7	938.1	798.7	65.9	1,212.6	−2.3
40.4	185.7	92.3	45.6	202.4	89.2	36.0	248.0	8.5
21.4	183.0	26.3	17.0	154.6	25.2	21.7	116.3	−8.7
31.9	448.5	147.5	36.7	402.5	153.5	32.0	479.5	1.0
20.0	470.9	95.8	19.9	482.5	110.8	21.2	521.8	−2.1
37.6	1,319.8	471.6	32.6	1,445.1	444.6	30.7	1,449.2	−2.0
44.9	1,058.2	444.5	39.9	1,114.8	567.2	42.9	1,320.9	5.8
40.8	627.4	235.0	48.3	486.4	239.5	45.3	528.9	7.0
38.6	79.1	30.0	40.9	73.4	26.8	36.1	74.2	7.2
43.7	*7,325.0*	*3,103.4*	*42.5*	*7,305.7*	*3,498.1*	*42.3*	*8,264.1*	*2.7*
13.1	*32,299.0*	*4,213.6*	*11.7*	*36,051.8*	*4,779.2*	*12.0*	*39,963.2*	*3.8*
	22.7	*73.7*		*20.3*	*73.2*		*20.7*	

funds officially authorized for Latin America and the funds actually made available to the Latin American countries (disbursements) by the United States official agencies (see table 10). Between 1961 and 1970, official United States financial assistance to Latin America amounted to 10,170 million dollars, including credit authorizations to the Agency for International Development (AID), Eximbank, and the United States Treasury, but the loans actually granted by the various official bodies over the same period amounted to 8,404 million dollars. This inadequate utilization of credits may be attributed, *inter alia,* to the conditions imposed, especially the requirement that beneficiary countries contribute counterpart funds, which frequently could not be raised because of budgetary problems. Certain requirements relating to the approval and supervision of the implementation of programmes also created difficulties or delayed the allocation of funds. Moreover, the terms and conditions surrounding certain "tied" loans, linked to lists of products whose prices in the United States were higher than those prevailing on the international markets, hampered or prevented the use of such loans by the Latin American countries.

It is worth noting that, between 1961 and 1968, official credit allocations to Latin America amounted to between 800 and 1,400 million dollars a year, fairly close to the level stipulated in the undertaking entered into by the United States Government at Punta del Este. This amount was reduced to 650 million dollars a year in 1969 and 1970, however, because of the restrictive attitude of the United States Senate in the field of foreign aid. As the balance-of-payments problem of the United States worsened in 1971, culminating in a complex international monetary crisis, which was not entirely resolved by the agreement reached in Washington in December 1971, it is to be expected that in 1972, and possibly in subse-

Table 10

LATIN AMERICA: BILATERAL OFFICIAL FINANCING FROM THE UNITED STATES, 1961-1970

(Calendar years—millions of dollars)

	1961	*1962*	*1963*	*1964*	*1965*	*1966*	*1967*	*1968*	*1969*	*1970*	*Total 1961-1970*
Loan repayments	1,403.1	838.8	897.0	1,450.5	950.5	1,072.3	1,140.8	1,114.6	676.6	625.9	10,170.1
AID[a]	451.2	517.5	603.5	1,006.9	533.5	744.9	556.0	645.3	507.5	394.0	5,960.3
Eximbank[b]	803.0	186.1	214.3	314.4	313.5	277.0	478.6	433.3	143.1	203.5	3,366.8
Treasury[c]	147.0	125.0	60.0	96.3	69.8	12.5	75.0	4.8	0.0	0.0	590.4
Other[d]	1.9	10.2	19.2	32.9	33.7	37.9	31.2	31.2	26.0	28.4	252.6
Disbursements of loans and official grants-in-aid	997.0	656.1	761.2	650.2	886.6	946.5	856.5	966.4	848.1	835.4	8,404.1
AID	250.9	299.8	419.1	485.0	636.9	710.2	596.0	636.7	529.6	528.2	5,092.4
Eximbank	670.5	311.0	232.4	132.8	206.0	199.8	237.1	308.2	290.5	278.8	2,867.1
Treasury	65.0	34.5	90.5	18.3	13.4	13.5	0.0	0.0	0.0	0.0	235.2
Other	10.7	10.8	19.2	14.1	30.3	23.0	23.4	21.5	28.0	28.4	209.4
Net flows of official finance	612.7	504.0	478.0	340.2	639.1	636.5	554.5	687.9	584.4	556.9	5,601.9
AID	247.1	295.1	408.4	474.7	627.8	695.8	573.4	612.6	503.8	502.9	4,941.6
Eximbank	343.9	170.7	24.7	−118.6	−1.2	−54.4	−35.5	59.0	52.6	25.6	466.8
Treasury	18.0	27.4	25.7	−30.0	−17.8	−27.9	−6.8	−5.2	0.0	0.0	−16.6
Other	10.7	10.8	19.2	14.1	30.3	23.0	23.4	21.5	28.0	28.4	209.4

SOURCE: OAS/IA-ECOSOC, "*Análisis de la evolución económica y social de América Latina desde comienzos de la Alianza para el Progreso*", (CIES/1636/Corr.1-3, August 1971).

[a] Includes loans that appear in the AID "Status of loan agreements as of December 31, 1970", grants-in-aid for the Alliance for Progress (data for fiscal years), loans and grants-in-aid under the heading of food for peace (data for fiscal years).

[b] Includes loans by Eximbank, but not guaranteed investment funds (Eximbank, "*Statement of loans and authorized credits 1961-1970*").

[c] Short-term balance of payments stabilization loans (United States Treasury Department, "*Treasury Bulletin 1961-1970*").

[d] Includes the Peace Corps and the Pan American Highway.

quent years also, an even more negative line will be taken in United States policy on official credit assistance abroad.

Apart from the question of the amount of credits granted, it should be emphasized that there was a considerable discrepancy between the level of credits disbursed and the actual net flows of funds after taking into account the servicing by the Latin American countries of their debts to the United States (see again table 10). Generally speaking, such service payments cut the amount of funds actually made available to the Latin American countries by one third, or even by closer to one half in exceptional years, such as 1964. The net flows normally represent 50 per cent of the loans approved.

As regards the conditions under which official United States loans to Latin America have usually been granted, it is to be observed that interest rates have tended to rise throughout the past decade, in accordance with trends on the international finance market, while repayment periods and periods of grace have got longer. The rates of interest applied by AID rose from 1.9 per cent in 1961 to 3 per cent in 1970, those of Eximbank from 5.5 to 6 per cent. Rates of interest on official United States credits have not increased as much as those for financial assistance granted to Latin America by the international organizations. Thus, the interest rates on ordinary loans granted by IDB rose from 5.8 to 8.2 per cent between 1961 and 1970, while those on IBRD loans went up from 5.8 to 7 per cent.

With regard to the practice of "tied loans", which has been applied in a particularly unfavourable manner in transactions of the United States Agency for International Development (USAID), the United States Government has partially accepted the Latin American countries' complaints and criticisms, but only after a period of hard-line attitude when it even went so far as to establish the criterion of additionality. Among other negative consequences of the policy of tied loans, it is estimated that the countries of the region paid prices for United States products around 30 per cent higher on average than they would have paid for equivalent goods obtainable on other supplier markets.

The marked drop in official United States aid to Latin America over the last three years began with the reduction in bilateral loans and then spread to IDB loans, following the refusal by Congress to authorize the additional funds requested by the Executive in 1970.

The United States has not been able to do justice at world level to the recommendations approved by UNCTAD or the targets set by the Development Assistance Committee of OECD either. Indeed, net transfers of funds—both official and private—to the developing countries have been dropping further and further from the target of 1 per cent of the United States gross national product, since they attained 0.7 per cent in 1967, 0.6 per cent in 1968, and only 0.49 per cent in 1969.[31] This decline in official United States aid to Latin America is not obvious from the actual disbursements to the region. Table 10 shows that in 1969 and 1970 gross disbursements under bilateral loans remained at around the average for the decade, while in the same two years IDB credit disbursements, which come largely from funds contributed by the United States, showed a considerable upswing even exceeding the average for the decade. An analysis of the net currents shows a similar trend, owing to the more rapid utilization of credits approved in previous years. However, bearing in mind the significant decrease in official credit allocations during 1969-1970, it is to be expected that in the near future—unless the current trend in allocations is reversed—there will be an increasing decline in the volume of gross disbursements by official United States agencies in favour of Latin America. The effect on the net currents will be even more pronounced, owing to the growing burden of service payments on debts contracted in the previous decade.

Several events have pointed up the uncertain future of official United States assistance and the tendency of the United States Government to cut back on certain undertakings in order to solve its own problems in the external sector. Thus, the 10 per cent reduction in foreign aid, decided upon in August 1971 as one of the measures to correct the tremendous deficit in the country's balance of payments but subsequently revoked for Latin America, makes another retrograde step in the United States' dwindling role in the provision of financial assistance for development. The United States Senate, which in recent years had systematically cut down the amounts proposed by the Executive, rejected outright the last bill that was tabled on the matter,[32] declaring that the allo-

[31] Development Assistance Committee (DAC), *Assistance to Development—Annual Reviews.*

[32] In November 1971, the Senate threw out in its entirety the bill on foreign aid allocations presented by President Nixon.

cations must be drastically cut before its decision could be revised. In the meantime, so as not entirely to interrupt its foreign aid programme, the Executive is resorting to provisional extensions of credits approved in the previous fiscal year.

The prospects described above are a source of great concern to the countries of Latin America, as the United States continues to be far and away the main source of external funds for the region and the Latin American countries consider that, for most of them, any acceleration in the development process in the next decade will continue to depend on the volume and conditions of external financial assistance, especially assistance of United States origin. The effects of United States aid to Latin America could be improved in the future if such aid were programmed on a long-term basis so that the region knew well in advance the size of the aid it would receive. Such programming would be facilitated if more United States official aid were channelled through mutilateral channels and especially through the IDB.

The conditions on which aid is supplied would also be improved if the process of "untying" aid that was begun in 1969 were completed, both on account of the direct encouragement this would be to the recipient countries and the stimulus it would provide for increased participation in multilateral schemes.[33] Lastly, the channelling of more resources through international institutions should be accompanied by increased multilateralization of the process of taking decisions on the granting of financial assistance—an aspect on which the Latin American countries have been laying great stress, particularly within IDB.

3. *Co-operation within the inter-American system*

In view of the gradual weakening of the process of inter-American co-operation provided for under the Alliance for Progress and the deterioration of their trade and financial relations with the United States, in May 1969 the Latin American countries adopted the Consensus of Viña del Mar, a wide-ranging document which laid fresh bases for inter-American relations and action in the field of trade, financing and technical assistance.

In the matter of trade, the Consensus proposed the following: the establishment of operational machinery to ensure the fulfilment of the agreements on the *status quo* and the elimination of tariff and non-tariff obstacles to the sale of products of special interest to the Latin American countries in the United States market; the holding of a special round of negotiations on primary commodities within GATT; the speedy conclusion of international agreements on specific products, such as cocoa and vegetable fats; the rapid implementation of the generalized system of preferences; the establishment of specific standards to regulate the application of escape clauses, and the strengthening of national and regional export promotion machinery. In the field of financial co-operation, the Consensus urges, among other things, that financial assistance should be a real transfer of resources and be granted in accordance with national development policies and plans of the recipient countries, that tied loans should be abolished and that multilateral assistance should be strengthened.

The response of the United States Government to the collective Latin American position was fairly positive; it proposed a new kind of association based on an open dialogue and more balanced relations between the two regions.[34] Among the specific decisions announced were the "untying", from 1 November 1969, of AID credit funds as far as purchases in Latin America were concerned; the re-examination of all other onerous conditions and restrictions affecting United States loans, with a view to modifying or eliminating them; the deployment of vigorous efforts to reduce non-tariff barriers against goods of special interest to the Latin American countries and other developing countries; decisive support for the generalized system of preferences; increased technical and financial assistance to promote Latin American exports; and the establishment, within the inter-American system, of regular procedures for the holding of prior consultations on any matter relating to trade.

As regards the machinery to deal with trade problems, a Special Committee for Consultation and Negotiation (CECON)[35] was set up, with the following functions: (*a*) to hold consultations when a member State of the inter-American system considers that the United States has violated the international agreements

[33] OAS/IA-ECOSOC, *"Análisis de la evolución económica y social de América Latina desde comienzos de la Alianza para el Progreso"* (document CIES/1636/Corr.1-3, August 1971).

[34] President Nixon's speech to the AIP, 31 August 1969.

[35] Resolution REM 1/70 (Caracas).

on the *status quo;* (*b*) to review the restrictions imposed by the United States from 1963 onwards which have an adverse effect on imports of Latin American products, with a view to finding satisfactory solutions; (*c*) to initiate consultations between the United States and the Latin American countries before the former adopts any measures which could adversely affect imports from Latin America, and (*d*) to identify tariff and non-tariff restrictions that hamper or prevent the access to the United States market of primary products and manufactures from Latin America, with a view to considering recommendations for their gradual elimination. At its first meeting, CECON set up an *Ad Hoc* Group on Trade to deal with tariff and non-tariff barriers and related questions. This Group is responsible for identifying barriers of this kind against products of interest to the region, as enumerated in a consolidated list presented by the countries of the region, and submitting to CECON proposals for their elimination. So far, the Group has made progress in identifying the obstacles, but it has not yet reached the stage of drawing up proposals for their removal.[36] The lack of concrete results within CECON may be attributed in large measure to the limitations imposed on the United States Executive by its own domestic legislation, which does not allow it to fulfil certain of its trade commitments.[37]

In the Consensus of Viña del Mar, the Latin American countries brought to the attention of the United States the constant rise in rates of interest on external loans and the need for the adoption of measures to relieve the growing burden of servicing such loans, especially through the possible establishment of an interest equalization fund. Despite the recommendations to the same effect contained in the Rockefeller report, however, the United States Government has adopted no measures to counteract the effects of increased interest rates, nor has it taken a position on the question of the interest equalization fund. On the contrary, it seems likely that, in view of recent trends towards the reduction of certain types of interest rates in some financial markets, consideration of this problem—which is especially important to Latin America in view of the fact that the region receives even less favourable treatment than other developing areas—will be postponed for the time being.

In an attempt to satisfy one of the main claims put forward by Latin America in November 1969, the United States Government adopted a series of directives designed to free loans to the region from some of the strings attached to them. Thus, credits granted by AID from 31 October 1969 onwards may be used for making payments in the United States and in any Latin American country except Cuba, provided that certain requirements regarding origin are complied with and, of course, that the goods[38] and services to be paid for serve the development interests of the recipient countries and appear on specific lists. In this connexion, it should be stressed that the requirement for additionality referred to earlier in this section was abandoned and it was decided that the Latin American countries themselves could help to draw up the lists of "eligible" products, and even prepare a common positive list for the region. Moreover, the United States Government expressed its willingness to study suitable ways of satisfying other Latin American demands regarding the date of application of provisions for freeing loans from strings, the conversion of United States dollars into national currency to finance local expenditure, the participation of national or regional Latin American banks in transactions connected with the loans in question, the criteria of eligibility, the establishment of a margin of preference of 25 per cent on the

[36] At the meeting of the IA-ECOSOC Special Committee held in March 1971 at Punta del Este, the terms of reference of the *Ad Hoc* Group on Trade were confirmed and renewed and tribute was paid to its positive efforts in the systematic, technical and objective study of the problems of tariff and non-tariff barriers which hinder the expansion of Latin American exports to the United States market: it was noted, however, that up to that time it had not been possible to arrive at agreements on matters relating to tariff and non-tariff barriers, health regulations, etc.

[37] Despite having made a request, in November 1969, for legal authority to carry out certain trade negotiations of limited scope, the President of the United States was denied such powers during 1970 and 1971. The discussion in the Senate of the 1969 Trade Bill, which represented the continuation of the United States trade policy of the last few decades, coincided with the manifestation of a marked protectionist attitude both in government circles and among the public at large, mainly as a result of the worsening of the balance-of-payments situation.

[38] Initially, it was stipulated that at least 90 per cent of the value of eligible products must originate in the country receiving the loan, but this figure was subsequently reduced to 50 per cent at the urging of Latin America, and under the new regulations this 50 per cent can, for instance, be made up as follows: 20 per cent of the value produced in the United States, 20 per cent produced in a Latin American country, and 10 per cent in any other Latin American country.

c.i.f. value of national or regional goods and services, the suspension of the requirement that goods be transported in ships flying the United States flag, and the replacement of the positive list by a negative list reflecting the import policy of each country.[39]

In response, the United States Government agreed to extend the "untying" measures to cover some or all of the loans granted, regardless of the date of approval of the loan, at the request of the Governments concerned and provided that steps had not yet been taken to purchase the goods and services in question. It also authorized the direct sale of dollars to finance local expenditures in connexion with projects financed by AID, and it modified the rules regarding origin along the lines indicated above. No progress was made, however, with regard to the other aspects mentioned in the previous paragraph.

In addition, with a view to helping to strengthen the national and regional capital markets in Latin America and to facilitating the access of Latin American countries to international capital markets, the United States announced that it would contribute up to 5 million dollars to set up a special fund for financing studies of financial markets, providing technical assistance in the expansion and operation of national and regional markets, assisting in the establishment of underwriting funds and giving support to national private enterprises through medium- and long-term credits designed to strengthen their competitive capacity. It also offered to donate 15 million dollars to finance the preparation of Latin American development projects or pre-investment and investment projects to be financed in full or in part with external credits.

[39] The United States may also support the possible multilateralization of bilateral aid provided within the framework of OECD.

D. RELATIONS WITH JAPAN

1. *General aspects and recent evolution*

During the last 10 years trade between Latin America and Japan has been greatly intensified. Latin American exports rose from 239 million dollars (f.o.b. values) in 1960 to 1,020 million dollars in 1970, which corresponds to a cumulative annual rate of 15.6 per cent. Although this relative increase is greater than the increase in exports from the region to other parts of the world, however, Latin America's share in total Japanese imports decreased over the same period from 8 to 6.2 per cent, from which it can be deduced that full advantage was not taken of the dynamism of Japanese buying in the international market. Latin American imports from Japan increased from 277 to 990 million dollars (f.o.b. values) over the last 10 years, so that it can be seen that while Japan increased its share in the Latin American market from 3.5 to 6.6 per cent, over the same period Latin America's share of Japanese exports decreased from 6.8 to 5.1 per cent (see table 11).

The salient features of this evolution are that:

(i) Latin American exports to Japan were concentrated on a limited number of products for which Japan, in some cases, became the main client, particularly raw materials, fuels and some tropical agricultural products;[40]

(ii) For the same reason, the increase in Latin American exports to the Japanese market was limited to a small number of countries, chief among which were Chile, Peru, Brazil, Venezuela, Ecuador, Mexico, the Central American countries and Argentina;

(iii) Latin America's trade balance with Japan has been generally favourable. Chile, Peru and Ecuador maintain clearly positive trade balances; Argentina, Mexico, Brazil and the Central American Common Market countries have balances which are neither negative nor positive, while Colombia, Venezuela, Bolivia and some Caribbean countries have chronic trade deficits with Japan, and

(iv) Japanese exports to Latin America increased sharply in the sectors of capital goods, machinery, transport equipment and various intermediate products, including in particular iron and steel products, synthetic fibres and

[40] These included: iron ore, non-ferrous metals, fish meal and animal feeds (maize and sorghum), textile fibres (wool and cotton), bananas, coffee, cocoa, sugar and oilseeds and oilseed cake.

Table 11

JAPAN: EXTERNAL TRADE, 1961-1970

(Millions of dollars, f.o.b.)

	Exports					*Imports*				
	Average 1961-1965	*Average 1966-1970*	*1968*	*1969*	*1970*	*Average 1961-1965*	*Average 1966-1970*	*1968*	*1969*	*1970*
TOTAL	*5,946*	*13,700*	*12,970*	*15,990*	*19,320*	*5,772*	*11,398*	*10,870*	*12,490*	*15,670*
United States	1,676	4,246	4,130	5,020	6,020	1,878	3,204	2,930	3,460	4,610
Canada	149	383	345	480	560	265	565	560	580	790
Europe	788	1,880	1,670	2,070	2,920	600	1,196	1,110	1,340	1,710
EEC	334	822	690	970	1,300	343	672	640	740	990
EFTA	340	760	760	720	1,060	239	470	425	550	650
South Africa, Australia, New Zealand	318	726	655	840	1,070	603	1,197	1,165	1,370	1,625
Latin America	352	671	600	800	990	416	708	610	790	1,020
Africa (except South Africa)	429	790	750	860	1,070	125	406	360	520	620
Middle East	197	443	460	550	540	609	1,602	1,650	1,730	2,080
Asia	1,686	3,698	3,610	4,450	4,870	956	1,748	1,680	1,920	2,370
Socialist countries ..	287	704	585	765	1,045	277	683	695	680	765

SOURCE: United Nations, *Monthly Bulletin of Statistics.*

chemical products. This fact, when taken in conjunction with the type of products exported by Latin America, gives a traditional type trade structure which is not to Latin America's advantage and which it would be appropriate to modify.

The extraordinary upsurge of the Japanese economy in the last 10 years, with an annual rate of growth of the gross national product of 13.6 per cent between 1961 and 1965 and 17.2 per cent for the period 1966-1970,[41] aided Japan's rapid integration into international trade,[42] which was underlined by the outstanding part that Japan played in the GATT Kennedy Round. If the growth trend of Japan's economy is maintained, even at a slower rate than in the last 10 years, Latin America will have excellent prospects of disposing of its products on the Japanese market, thanks to the considerable elasticity of the consumption/import ratio as regards food products, raw materials and fuels and the new possibilities for manufactures and semi-manufactures which could arise from the implementation of the generalized system of preferences.

The possibilities that the Latin American market offers to Japanese export depend basically on the region's balance-of-payments situation with Japan and the rest of the world, on the external finance policy followed by Japan, and on the transfer of resources and technology either directly or through the expansion and diversification of the areas of Japanese investment in Latin America.

2. *Japan's trade policy*

Despite the extraordinary growth of its export trade, Japan has consistently pursued—especially up to the Kennedy Round—a severely restrictive trade policy characterized by high tariff barriers and numerous quantitative restrictions. After the last negotiations with GATT, the results of which were implemented nearly eight months early,[43] various quantitative restrictions were maintained on products of interest in Latin America.[44] At the beginning of 1971, a change in Japanese trade policy began to make itself felt; this was largely due to the need to avoid an excessive accumulation of foreign currency, resulting from the large trade surpluses, and to the efforts to slow down the process of inflation (which it was felt might adversely affect the dynamism of the growth of the Japanese economy). This change of direction was characterized by:

(i) The above-mentioned advance implementation of the tariff concessions agreed in GATT;[45]

(ii) The implementation of the generalized system of preferences in favour of the developing countries in August 1971;

(iii) The reduction from 120 to 40 in the number of products subject to quantitative restrictions and the fixing of larger quotas for the products still subject to restrictions, and

(iv) The unilateral reduction of tariff duties on various products, particularly consumer goods, and the gradual elimination of the system of automatic import quotas (47 products remained by June 1971).

Although the conditions of access to the Japanese market have improved substantially over the last few years, various restrictions still exist which limit the possibilities of disposing of products of interest to Latin America. These difficulties arise from high tariff barriers, particularly as regards agricultural products and processed foods, which have not secured substantially better treatment in GATT and have not been included in the generalized system of preferences; price stabilization machinery which absorbs any reduction in prices caused by a drop in international market or prices by currency movements affecting goods such as meat, soya, sugar, etc. or goods subject to state trading controls (wheat and rice); limitation of the remaining import quotas to a percentage of internal consumption (3 per cent) which can be considered extremely low, and excessively small preference quotas,[46] which limit the benefits expected from the

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41 More than twice the average rate of growth of all the other industrialized countries.

42 In 1970, with imports of raw materials and fuels to the value of 7,959 million dollars, Japan became the main world market for this sector, standing ahead of the United States (6,193 million dollars), the Federal Republic of Germany (5,375 million) and the United Kingdom (4,928 million).

43 The tariff reductions agreed upon were put into effect in April 1971.

44 Including meat meal, fish meal, oilseed cakes, animals on the hoof, etc.

45 See table of charges and non-tariff restrictions applied by Japan to products of interest to Latin America (*Economic Survey of Latin America,* 1970) (E/CN.12/868/Rev.1).

46 Imports from the developing countries for the base year, plus 10 per cent of the imports recorded for other countries.

system of preferences. Furthermore, it can be seen that the tariff reductions introduced by Japan within GATT, unilaterally or within the system of preferences, have in many cases actually raised the margin of customs protection for some processed products,[47] in direct contradiction to the claims put forward by the developing countries.

3. *Areas of co-operation*

The establishment of closer relations between Latin America and Japan depends basically on the possibilities of increasing and diversifying reciprocal trade and on the direction which future Japanese co-operation in the area of finance and technical assistance will take. The expansion of trade should be based on concrete lines of action to give Latin American primary and processed products greater access to the Japanese market, beginning with:

(i) The reduction of the high duties still levied on products not included in the system of preferences. Examples of such duties are: meat, 20 per cent; bananas, 40 or 60 per cent depending on the period; roasted coffee, 35 per cent; sugar, 15 to 20 dollar cents per kilo, etc.;

(ii) The elimination of quantitative restrictions on products of interest to Latin America[48] or at least on products from developing countries;

(iii) The reduction of unwarranted protection for products with a higher level of processing, unilaterally or within the generalized scheme of preferences, beginning with products where protection has actually increased over the last few years;

(iv) Assistance in solving some operational problems which hinder the growth of Latin American exports, particularly in some countries of the region. Such problems include problems of transportation, marketing channels, knowledge of the Japanese market, proportional freight rates, and the improvement of harbour services and equipment;

(v) Support for the export efforts being made by Latin American countries, through the provision of technical assistance which will allow advantage to be taken of Japan's experience in exports, the possible collaboration of Japanese trading companies and the setting up of centres for the importation and promotion of Latin American products on the Japanese market, and

(vi) The introduction of greater flexibility in the application of tariff preferences (inclusion of products at present excluded, broadening of the terms of access, total duty-free entry, etc.), so as not to disrupt new trade flows which are beginning to be fostered by this system.[49]

Co-operation in finance and technical assistance could be intensified both with regard to the economic infrastructure, particularly in the case of the least developed countries of the region, and also with regard to the development of manufactures for export at the national or multinational level.

Japan's financial assistance to Latin America has been exceedingly limited. In 1970 it reached 169 million dollars in comparison with a total of 1,824 million dollars for the developing countries as a whole, the largest share going to the Asiatic countries (see table 12). The characteristic feature of Japanese financial assistance has been the low proportion of official assistance and the high proportion of medium- and long-term supplier credits for the acquisition of capital goods and equipment; this has meant heavier costs and shorter average repayment periods and periods of grace than in the case of the assistance provided by most of the other developed countries. It is to be hoped that in future the flow of financial resources from Japan to Latin America will be large enough and on sufficiently satisfactory terms to further the development of reciprocal trade relations, that tied aid will be eliminated and the conditions for granting aid improved, and that official assistance on a bigger scale will be increasingly channelled towards regional and subregional finance agencies.

Japan's participation in the industrial sector should take account not only of the individual needs of the different Latin American countries, but also of the sectors in which Japanese industry can make the biggest technological contribution, either directly or in association with financial contributions or investments of private

[47] Soluble coffee, cooking oils, worked metals.

[48] Processed foods, dairy products, some fish products, fruit juices, etc.

[49] The import quotas for several products (footwear, some textiles, etc.) ran out shortly after the system came into force.

Table 12

GEOGRAPHICAL DISTRIBUTION OF JAPANESE EXTERNAL ASSISTANCE

(Millions of dollars)

	Total	Latin America			Asia[b]	Africa
		Total	South America	Central America		
Bilateral assistance	1,149.1 (1,516.0)[a]	77.3 (169.4)	67.0	10.3	957.4 (1,182.7)	56.1 (29.5)
Government assistance	705.4 (864.1)	29.3	23.9	5.3	603.6	15.0
Official assistance for development	339.7 (371.5)	−13.4 (−15.0)	−13.6	0.5	345.4 (377.8)	4.1 (8.4)
Grants-in-aid	123.4 (121.2)	1.6	1.1	0.5	118.2	2.7
Technical assistance	19.0 (21.6)	1.6 (1.5)	ND	ND	13.8 (16.1)	2.7 (2.7)
Direct loans	(216.2) (250.3)	−14.8	−14.8	—	227.2	1.4
Other official assistance	(365.8) (492.6)	42.2	37.6	4.9	258.1	10.9
Direct investment and loans	55.9 (143.1)	9.1	9.2	−0.1	35.1	3.5
Export credit	309.9 (349.5)	33.3	28.4	4.9	223.0	7.4
Private assistance	443.7 (654.8)	48.0	43.1	4.9	353.8	41.9
Grants-in-aid	— (2.9)	—	—	—	—	—
Export credit	299.6 (386.9)	14.0	16.9	−2.9	249.7	13.3
Direct investment	144.1 (265.0)	34.0	26.2	7.8	104.1	27.9
Multilateral assistance						
Japanese contribution to international agencies (official assistance)	95.9 (86.5)					
Official loans to international agencies	10.0 (201.0)					
Private loans to international agencies	8.0 (17.5)					
Over-all TOTAL	*1,263.1* *(1,824.0)*					
Gross national product	1,658.900 (1,961.600)					
Assistance as percentage of GNP	0.76 (0.93)					
Total export credit	609.5 (736.5)	47.3	45.3	2.0	472.7	20.7
Total direct investment	199.9 (488.1)	43.1	35.4	7.7	139.2	33.4

SOURCES: Ministry of International Trade and Industry (MITI), *White paper on economic assistance, 1970*; MITI Information Service, *Statistical data relating to economic co-operation*, October 1971.

[a] Figures in brackets are for 1970.
[b] Including the Middle East.

capital. It should be noted that Japan has achieved outstanding world success in the areas of electronics, shipbuilding, telecommunications, precision industries, textiles, etc.

Japanese private investment in Latin America has been increasing sharply over the last few years, and is estimated at more than 500 million dollars for the post-war period (see table 13), 47.3 per cent being invested in manufacturing industry, and nearly 20 per cent in mining industry. About 70 per cent of this private investment went to Brazil, 20 per cent to Chile and Peru, and the remaining 10 per cent to Argentina and Mexico: in other words, almost exclusively to the most advanced countries of the region.

Table 13

JAPAN: INVESTMENT ABROAD BY SECTOR AND AREA, 1951-1969[a]

(Millions of dollars)

	Total		*Non-industrial areas*		*Latin America*[b]	
	1951-1969	*1969*	*1951-1969*	*1969*	*1951-1969*	*1969*
Agriculture, forestry, fishing, mining, etc.	1,137.3	321.7	874.4	267.3	102.2	43.1
Mining	891.8	297.3	768.0	247.0	82.6	38.2
Wood, pulp, etc.	133.5	3.3	8.3	1.0	—	—
Manufacturing	542.9	128.3	500.1	121.1	242.5	21.5
Textiles	139.9	34.0	136.0	34.0	50.1	5.0
Chemicals	34.2	6.3	22.8	5.9	5.6	0.5
Metals	128.8	38.2	128.0	37.8	63.8	0.8
Non-electrical machinery	51.6	9.4	46.7	8.6	37.4	6.7
Electrical machinery	49.0	22.0	48.2	21.6	13.6	3.3
Transport equipment	99.7	11.4	81.6	6.4	67.5	4.5
Other	39.7	6.9	36.8	6.8	4.5	0.7
Trade, banking and other	1,002.7	217.6	285.1	55.7	167.8	35.7
TOTAL	*2,682.9*	*667.6*	*1,659.6*	*444.8*	*512.6*	*100.5*

SOURCE: Ministry of International Trade and Industry (MITI), *Present state and problems of economic co-operation, 1970.* Tokyo, 1970.

[a] Approved investment by fiscal year.
[b] Including non-independent territories in the Caribbean.

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 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, the Federal Republic of Germany, France, the Netherlands and Portugal. Five others fell substantially short of the target: Austria, Canada, Norway, Sweden and the United States. The remaining six countries registered cofficients 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, be-

Table 1

THE FLOW OF FINANCIAL RESOURCES FROM DAC COUNTRIES[a] TO DEVELOPING COUNTRIES AND MULTILATERAL INSTITUTIONS, 1965-1970

(Thousands of millions of dollars)

	1965	*1966*	*1967*	*1968*	*1969*	*1970*[b]
Net disbursements						
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[c]	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[d]	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
Indexes of volume (Net disbursements)						
Total flow as share of GNP (per cent)	0.78	0.71	0.72	0.78	0.75	0.74
Total official flow as share of GNP (per cent)	0.48	0.45	0.46	0.43	0.39	0.40
Official development assistance as share of GNP (per cent)	0.44	0.42	0.43	0.38	0.36	0.34
Private flow as share of GNP (per cent)	0.31	0.26	0.27	0.36	0.36	0.34
Indexes of terms (Commitments)						
Grants as share of total official commitments (per cent)	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 (per cent)	3.6	3.1	3.8	3.6	3.5	...
Grant element of total official commitments (per cent)[e]	77.0	81.0	76.0	75.0	79.0	...

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

Note: Items may not add up to the totals given, owing to rounding.

[a] Australia, Austria, Belgium, Canada, Denmark, the Federal Republic of Germany, France, Italy, Japan, Netherlands, Norway, Portugal, Sweden, Switzerland, United Kingdom and United States.

[b] Preliminary figures.

[c] Including "grant-like" flows expressed in recipients' currencies.

[d] Excluding grants by private voluntary services, which in 1970 totalled an estimated 840 million dollars from all DAC countries.

[e] On the basis of a conversion rate of 10 per cent.

cause of its unfavourable nature and because of its tremendous relative importance, is the downward trend registered in the United States.

(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 reached on a minimum percentage for such official transfers, 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 ad-

Table 2

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

(*Percentages*)

	Average 1965-1967	*Average 1968-1970*	*Share of total GNP of DAC countries in 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
TOTAL *DAC countries*	*0.74*	*0.76*	*100.0*

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

vanced 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),[1] 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 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

[1] 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.

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, the Federal Republic of Germany, Italy, Japan, the United Kingdom and the United States. The biggest reductions, incidentally, were in the assistance provided by Austria, the United Kingdom and the United States (see 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 (SDRs) between 1970 and 1972 and to two and a half times the total volume of loans authorized by the International Bank for Reconstruction and Development (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, the Federal Republic of Germany for 480 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.

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 industrialized 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.

Table 3

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

(*Percentages*)

	Average 1965-1967	*Average 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
	0.43	*0.36*

SOURCES: 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.3/97), 1 September 1971, table 4.

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

Between 1965 and 1969, Latin America[2] 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 sig-

[2] The region is taken as comprising the 19 countries listed in table 6, excluding Haiti but including Guyana, Jamaica and Trindad 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*			*Multilateral loans and credits*	*Total (percentage by region)*
	Supplier credits	*Other*[a]	*Total*		*DAC countries*	*Other countries*[b]	*Total*		
Africa									
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
East Asia									
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
Middle East									
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
South Asia									
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
Southern Europe									
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
Western Hemisphere									
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
Total (percentage by category)									
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.

nificantly, 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 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.

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—benefited 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.

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, particu-

Table 5

AVERAGE TERMS OF LOAN COMMITMENTS, BY DEVELOPING REGIONS

(1965-1969 average and indexes)

	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[a]	13.0	68	2.2	49	4.7	102
Western Hemisphere[b]	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.

[a] Excludes Israel.

[b] Excludes Brazil.

Table 6

FLOW OF FINANCIAL RESOURCES TO LATIN AMERICA, 1965-1970

(Millions of dollars)

	Total net disbusements 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)	
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
Relatively more developed countries	*(330.0)*	*(3,691.0)*	*(98.0)*	*(36.0)*	*(1,031.0)*	*(1,337.0)*	*(428.0)*	*(3,727.0)*	*(1,459.0)*	*(5,064.0)*
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
Countries at an intermediate stage of development	*(1,472.8)*	*(1,835.0)*	*(125.9)*	*(254.0)*	*(−5.0)*	*(724.8)*	*(1,598.7)*	*(2,089.0)*	*(1,593.7)*	*(2,813.8)*
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
Relatively less developed countries	*(754.2)*	*(1,223.1)*	*(245.5)*	*(138.7)*	*(251.7)*	*(505.3)*	*(999.7)*	*(1,361.8)*	*(1,251.4)*	*(1,867.1)*
Latin America	*2,557.0*	*6,749.1*	*469.4*	*428.7*	*1,277.7*	*2,567.1*	*3,026.4*	*7,177.8*	*4,304.1*	*9,744.9*

SOURCE: ECLA, on the basis of official statistics.

larly 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 or 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 Action Programme 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".

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 the third session of UNCTAD 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

Table 7

COMMITMENTS FOR BILATERAL ECONOMIC ASSISTANCE TO DEVELOPING COUNTRIES ENTERED INTO BY THE SOCIALIST COUNTRIES OF EASTERN EUROPE AND ASIA, 1961-1970[a]

(*Millions of dollars*)

	Annual average 1961-1965	*Annual average 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
TOTAL	*711*	*1,004*	*748*	*776*	*1,694*

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

[a] Excluding commitments to Cuba.

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.

(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 Invisibles 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

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

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*					*Official grants*	*Total net contribution of foreign capital*
	Dis-burse-ment	*Re-pay-ments*	*Balance*	*Inter-est paid*	*Net con-tribution of loans*	*Direct invest-ment*	*Depre-ciation*	*Balance*	*Profits*	*Net con-tribution of direct investment*		
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 ..	15,133.3	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	6,971.7	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 service payments on foreign capital
	Amortization	Interest	Total	Profits	Depreciation	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.

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 connexion, it has been estimated[19] 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

[19] United States Arms Control and Disarmament Agency, *Annual Report, 1969*.

Table 8

AVERAGE WEIGHTED TERMS UNDER WHICH CERTAIN OFFICIAL LOANS HAVE BEEN GRANTED[a]

	1966-1967			*1968-1970*[b]		
	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

SOURCES: 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.*

[a] Includes authorizations by US-AID, EXIMBANK, IDB, IBRD and IDA.

[b] Loan authorizations under United States Law 480 and EXIMBANK authorizations are included only up to June 1970.

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 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 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

[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 the Inter-American Development Bank (IDB). This procedure would involve the combined use of IDB'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 IDB 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.

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 that "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."

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[6] 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.

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.[7] 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.

(d) *Liberalization of certain conditions of financial assistance*

The Lima Action Programme 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

[6] The reader will recall the size of the figures that were referred to earlier.

[7] See World Bank, *International Development Association, Annual Report 1971*, op.cit., appendix H.

ments 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."

[xxvii] "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 head 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 of 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).

Secondly, over the past 10 years there have been 22 cases (involving 10 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 1961 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.[18]

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 indexes (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 in-

[18] See UNCTAD, op.cit., TD/B/C.3/96, annex, table 1.

Table 9

INFLOWS OF EXTERNAL RESOURCES AND OUTFLOWS IN RESPECT OF SERVICE PAYMENTS ON EXTERNAL PUBLIC DEBT, 1965-1969

(Millions of dollars)

Area/year	Disbursements			Debt service			Net flow[b]	Net transfers[c]
	Loans	Grants and grant-like contributions[a]	Total	Amortization	Interest	Total		
Africa								
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
East Asia[d]								
1965	509.1	363.4	872.5	163.5[e]	30.1[e]	193.6	709.0[e]	678.9
1966	437.1	308.1	745.2	186.4[e]	39.1[e]	225.5	558.8[e]	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
Middle East								
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	582.2	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
South Asia[f]								
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
Southern Europe[g]								
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	758.2	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
Western Hemisphere[h]								
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

Table 9 (*continued*)

(*Millions of dollars*)

Area/year	Disbursements: *Loans*	Disbursements: *Grants and grant-like contributions*[a]	Disbursements: *Total*	Debt service: *Amortization*	Debt service: *Interest*	Debt service: *Total*	*Net flow*[b]	*Net transfers*[c]
80 developing countries								
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, *International Development Association, 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 supplier 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.

creased 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 over-all inflow of foreign resources.

The net result of this 20-year period was that the over-all 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 investment and 12.5 per cent in servicing the external debt.

(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

Table 10

THE EXTERNAL PUBLIC DEBT AND DEBT SERVICE PAYMENTS, 1961-1969

(*Millions of dollars*)

		Public debt[a]	*Percentage of total*	*Public debt service payments*	*Percentage of 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	436	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	613	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
TOTAL	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, "Liberalization of terms and conditions of assistance" (TD/B/C.3/96), table 2.

[a] As of 31 December, including sums not yet disbursed.

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.

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 benefited 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 the efforts 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 statement 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,[8] 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 benefiting the economy of the country offering them.

3. *Foreign private investment in its relationship to development*

The International Development Strategy (paragraph 50) and the Lima Action Programme (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 manufacturing industries (in Argentina, 64 per cent and in Mexico, 68 per cent).[9]

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 pay-

[8] See UNCTAD, *Report of the Committee on Invisibles and Financing related to Trade* (TD/B/318), annex II.

[9] 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).

ments, the nature of the technological development it promotes and the autonomy of the national economies. Some remarks on these aspects are made below.

(i) *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 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 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.

(ii) *Aspects relating to the flow of technology.* While there is no denying the contribution —in over-all 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.

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.

(iii) *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

[10] See ECLA, "The expansion of international enterprises and their influence on development in Latin America", op.cit., page 58; "Trends and structures of the Latin American economy: B. The external sector", 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 and their influence on development in Latin America", op.cit., table 11.

arrangements adopted for the distribution of SDRs among countries and their entry into circulation will be of fundamental importance. Thus, the greater the potential and actual access to new SDRs of developed countries with more or less permanent balance-of-payments deficits, the smaller the proportion of such SDRs that will be available for development financing in the developing countries.[15]

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 while, 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.

Another aspect that will have to be considered in the operation of the link will be the institutional arrangements for channelling the SDRs 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, owing 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 the second session of UNCTAD, 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,[16] despite the fact that in the International 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 Lima Action Programme, the relevant decisions will have to be taken and the Intergovernmental Group of UNCTAD will have to be instructed to continue examining possible bases for such a scheme.

[15] See the remarks in this connexion in the article on the present international monetary situation and the reform of the international monetary system.

[16] See document TD/B/353 of 21 May 1971.

(c) *Compensatory financing*

In the Lima Action Programme it is reaffirmed that "the IMF should give serious consideration to the suggestions of the developing countries contained in decision 31 (II) of the second session of UNCTAD 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 Lima Action Programme, 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 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 Lima Action Programme 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*[17]

(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 cooperation 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 Lima Action Programme states in section D (*f*), paragraphs (xxiv) and (xxvii), that:

> [xxiv] "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 repay-

[17] On this item see UNCTAD secretariat documents "The flow of financial resources" (TD/B/C.3/92) and "Liberalization of terms and conditions of assistance" (TD/B/C.3/96).

in the industrial product of the region.[12] 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 over-all 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.

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 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 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

[12] See ECLA, "The expansion of industrial enterprises and their influence on development in Latin America", op.cit., table 31.

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 (SDRs) and the provision of additional development finance to developing countries;[13] this proposal is reiterated in the Lima Action Programme. 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 SDRs, 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 SDRs. Both objectives should be pursued simultaneously because they have different purposes as regards the financing of the system.[14]

The great urgency—recognized 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 SDRs, 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 SDRs 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 SDRs in the creation of new international liquidity; obviously, the greater this is, the greater will be the supply of SDRs that could be subject to the link. Secondly, the

[13] In this connexion, see *Official Records of the Trade and Development Board, Tenth Session, Annex III, Supplement No. 4* (TD/B/318), and also the report by the UNCTAD secretariat, *International monetary issues* (TD/B/356).

[14] See chapter XII on the present international monetary situation and the reform of the international monetary system.

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.

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 building up increasing international reserves, for in their eagerness to

[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 repercusiones sobre América Latina de la nueva política económica de los Estados Unidos"* (E/CN.12/L.67).

of these figures, it may be noted that the military expenditure of the developed countries was at least 10 times greater than their total (public and private) financial assistance to the developing nations, and 20 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.

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 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 currency realignments agreed upon in December 1971 reduced the real value of the international holdings of developing countries by about 1,000 million dollars,[2] 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

[2] See UNCTAD, "International monetary issues" (TD/B/C.3/98), page 19.

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 paralyse 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.

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 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 Action Programme (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 Action Programme 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 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.[3]

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 Action Programme, 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;

"(*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

[3] See UNCTAD, "International monetary issue" (TD/B/C.3/98), chapter V and annex.

instrument of reserves should not be identified with national currencies and should increasingly become a fiduciary instrument like SDRs.[4]

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 the established procedure provides simply that SDRs 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 overemphasized, 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 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 specu-

[4] See document XIII—GOBCEL/7, Rev.1.

lation 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.[5]

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[5] See UNCTAD, "International monetary issues" (TD/B/C.3/98), pages 19 and 20.

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