

UNITED NATIONS

ECONOMIC
AND
SOCIAL COUNCIL



PROVISIONAL

E/CN.12/SR.116 (XII)

9 May 1967

ENGLISH

ORIGINAL: SPANISH

ECONOMIC COMMISSION FOR LATIN AMERICA
Twelfth Session

PROVISIONAL SUMMARY RECORD OF THE ONE HUNDRED AND
SIXTEENTH MEETING

Held at Caracas, Venezuela,
on Tuesday, 9 May 1967, at 4.00 p.m.

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The position of the Latin American economy (continued)

Chairman: Mr. GARCIA REYNOSO (Mexico)

Rapporteur: Mr. MENDEZ (Colombia)

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THE POSITION OF THE LATIN AMERICAN ECONOMY (continued)

Mr. ZASSENHAUS (International Monetary Fund) reviewed the economic developments in Latin America during the past year and said that, despite the difficulties encountered, significant progress had been achieved in many countries. Up to the first half of 1966 the balances of payments had been favoured by high prices for certain products in the international market. Later, however with the weakening of international raw material prices, the external resources of the Latin American countries were again threatened. The prospects for wider access to the markets of the developed countries for Latin American exports appeared to be encouraging, as well as the tendency towards the preparation of more realistic and flexible public investment plans and their closer co-ordination with government budgets.

The Fund's relations with the developing countries had shown the need not only for stabilization but also to create conditions favourable to the maintenance of stability as a basis of sustained development. While the Latin American countries had continued to be the most active users of the Fund's resources, since May 1965 up to the end of March 1967 Latin American repurchases had exceeded new drawings, which had reduced the ratio between the Fund's holdings of Latin American currencies and the total of Latin American quotas from some 124 to 104 per cent. After reviewing the Fund's transactions with the region and the revision and broadening of its financing policy in response to a resolution adopted by UNCTAD, he reported that the IMF Institute had widened its training activities with courses in English and in French and intended shortly to begin courses in Spanish. In Latin America, the Fund had continued its close collaboration with the Inter-American Committee on the Alliance for Progress (ICAP), the Centre for Latin American Monetary Studies (CEMLA), the Inter-American Development Bank (IDB) and the International Bank for Reconstruction and Development (IBRD), as well as with ECLA, and intended to maintain those close relations in the future.

Mr. JATAR (Latin American Free-Trade Association) said that the Latin American Free-Trade Association (ALALC) made it a point to be represented

/at ECLA

at ECLA session, because the Commission had formed part of the group which prepared the Montevideo Treaty under which the Free-Trade Area had been established in 1960 as one of the two integration systems existing in the region, and because, in its view, progress in integration was impossible without the data prepared by ECLA. Moreover, there was a permanent link between the two agencies: ECLA's technical advisory assistance and the presence of an ECLA representative in the Standing Executive Committee of the Association.

ALALC, in fulfilment of the purposes for which it had been created, was doing everything possible to help the peoples of Latin America to realize their hopes and aspirations and preserve human dignity. ALALC's methods for achieving those aims had been criticized as too slow for the region's requirements, but the Declaration of Punta del Este and the meetings of Foreign Ministers had shown that demands for greater speed did not have sufficient backing from the very countries which should be the standard-bearers for ALALC's cause. In that connection, the deadline approved for the establishment of a common market in 1985 was an eloquent comment. Pressure for integration was generated by unfavourable circumstances, such as the drop in export earnings and the population explosion, as reflected in the fact that from 1961 to 1965 the volume of investment rose by only 3.3 per cent, compared with a population growth of 2.8 per cent.

There had also been a decline in Latin America's share in world trade (from 8.5 to 6.2 per cent from 1955 to the end of 1966) and in trade with the United States (from 21.3 to 17.2 per cent between 1960 to 1966). In short, the real motivation for integration was the desire of the 300 million inhabitants who would be living in Latin America in 1980 not to live well, but to be able to subsist.

In the six years of its existence, ALALC had consolidated traditional trade transactions on a multilateral basis, gradually eliminating bilateral agreements. Thus, from 1962 to 1964 the ALALC countries had tripled their trade in chemical products, increased livefold their purchases and sales of heavy machinery and transport equipment and generally increased the value

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of trade transactions among the countries of the Area by 130 per cent, or from 650 million dollars in 1961 to 1,517 million at the end of 1966. In the course of that year, the Standing Executive Committee of ALALC had convened the first meeting of the Agricultural Council to continue its work on problems of agriculture, as well as meetings of representatives of the insurance business, commercial banking, transport and communications, the entrepreneurial sector and labour, and those responsible for transit of persons within the Area and other activities. In that same year, the liberalization programme - the basis of ALALC activities - had been stepped up and Venezuela and Bolivia had joined the Association.

Last December, the Standing Executive Committee had convened a meeting of the Council of Ministers for Foreign Affairs of the States members of ALALC, at which a protocol was signed which, upon entry into force, would authorize nationals of member countries to enter, cross and leave the territory of any ALALC country without visas or special permits.

In dealing with the immediate future, ALALC had already organized its programme of action for 1967. Four working groups were to make a preliminary study of co-ordination, trade policy, liberalization and industrial questions. The fourth special session of the Contracting Parties was scheduled for the second quarter of the year, while progress was being made in the trade liberalization programme which was to culminate in the seventh regular session at the end of 1967.

ALALC was being strengthened by the high-level backing implicit in the Protocol for the amendment of the Charter of the Organization of American States (OAS) and by the agreements adopted by the Meeting of American Chiefs of State. It was further strengthened by the steps it was taking to merge with the Central American Common Market and thus consolidate the Latin American integration process.

/Mr. HOYOS

Mr. HOYOS (Peru) said that the current session had provided useful guidelines for Latin American action during the forthcoming session of UNCTAD in the form of the ECLA report, and the observations and proposals submitted by delegations. The first UNCTAD Conference had inevitably been devoted to stating the problems, defining the positions and bringing divergent opinions into the open, rather than to negotiating agreements among countries. Up to a point, it had been tacitly agreed that international trade should be reorganized, brought into balance and expanded on a more equitable basis, but the measure of agreement among over one hundred countries with so many different interests was necessarily limited to the general statements and undertakings embodied in the Final Act. While those undertakings were not legally binding, they had had - and continued to have - political significance and moral force, despite the fact that the developed countries had not even honoured their pledge to maintain the status quo and not to adopt new measures which might affect the marketing or prices of the primary commodities of the developing countries. It was essential to prevent a recurrence of that situation at the second Conference if the peoples of Latin America were to be spared further disappointments. He therefore hoped that there would be a confrontation of developed and developing countries in New Delhi, but he did not expect it to be a battle with victories and surrenders, but rather a friendly debate motivated by the will to reconcile conflicting opinions - and there were many favourable factors which could contribute to that result.

He recalled that in the period 1961-66 Latin American exports increased in volume, and that their unit value had reached the 1958 level. Nevertheless, despite that moderate relative expansion in exports, caused by circumstantial factors, exports had risen at a slower rate than imports. The conclusion to be drawn was therefore that, even when circumstances were favourable, the prevailing conditions of international trade did not provide the Latin American countries with the external resources necessary for their development. Moreover, it should be noted that external financial aid, though it had doubled in recent years, did not breach the gap, because debt service absorbed much of that assistance. The situation was aggravated by

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the need to replenish reserves which had been depleted by balance-of-payments deficits and remittances of profits. The inadequacy of external resources restricted Latin America's payment and import capacity, and adversely affected developed countries by depriving them of a Latin American market of over two hundred million people. It should also be emphasized that financial assistance to Latin America, far from being a gift, took the form of reciprocally beneficial loans on which interest was paid.

The atmosphere of the second session of UNCTAD would undoubtedly be better than that of the first session. One reason for that was that, at the Punta del Este meeting, President Johnson had pledged support for a system of preferences favouring all developing countries and for measures to remove restrictions on Latin American trade. Other examples of a new spirit were the proposals made by France (Kojève Plan), Denmark, and Belgium (Brasseur Plan), which provided a sound basis for negotiation and gave cause for optimism. That optimism would be justified, however, only if Latin America achieved real unity of method and purpose it was not enough to present a united front at UNCTAD and in other similar circumstances. Latin America required a coherent, permanent economic policy vis-à-vis the rest of the world. Integration would thus have two sides: a domestic side, leading to the common market, and an external side, which would unify the countries of the region in a solid bloc.

Latin American energies at New Delhi should not be dispersed on a whole range of more or less important questions. The order of priorities had been established by the ECLA and GATT working groups: free access of primary commodities to the markets of the industrialized countries, the removal of discriminatory preferences, the establishment of a system of general non-discriminatory preferences for developing countries' manufactures and semi-manufactures, reform of methods of financial assistance to make them serve their true purpose, and the opening up of new geographical regions to trade among countries with different economic and social systems. Moreover, in connexion with primary commodities, attention should be given to the French proposal on organizing markets and the possibility of new world stabilization agreements should be explored. The principle of general

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preference for manufactures was worthless unless a developed country which sought to cut off the flow of imports of manufactures on the pretext of market distortion were permitted to do so only after multilateral consultations.

Other problems of major importance were development financing and financing of invisibles. The purpose of financial assistance was to give impetus to under-developed economies not to benefit the exports of industrial countries. Accordingly, there should be no obligation to purchase from the lender country or to transport goods under a given flag. Debts would eventually absorb most of the financial aid granted unless that aid was increased by such means as the Horowitz Plan, and the compensatory and supplementary financing proposed by IMF and the World Bank, and unless loans were liberalized through longer repayment periods and lower interest rates. In short, Latin American strategy at the forthcoming session of UNCTAD should be based on the results of the Kennedy Round, the advice of ECLA and the conclusions of the Algiers meeting of the seventy-seven developing countries and of the forthcoming CECLA conference, thus ensuring a more realistic approach than that adopted at the first session.

The current session had also considered Planning problems and the progress made in planning with the help of ECLA. The agreement to establish a Common Market within fifteen years created urgent problems and the planning of industry in order to make it competitive should be based on specialization and the division of labour.

He suggested that the ECLA secretariat should undertake a study of the population explosion and how it distorted population structure by burdening society with a high proportion of economically inactive young people and creating unemployment and under-employment, urban flight, etc. Similarly, the purely economic aspects of agrarian reform should be studied with a view to bringing its social objectives into line with agricultural modernization and mechanization, increased productivity, and increased food production. He mentioned, by way of example, the fact that agrarian reform in Peru had brought about an improved standard of living for the rural population and said that agrarian reform should be financed, as President Belaúnde had proposed by bonds, which not only provided income but could be used for the industrialization of rural areas.

/Mr. IRANETA

Mr. IRANETA (Inter-American Development Bank) informed the Commission that there had been a steady increase in the loans granted by IDB, which in the first few months of 1977 amounted to a total of more than 2,000 million dollars, a sum which had covered a strategic part of the financial requirements of the main sectors of economic and social development of the Latin American countries. The new approved increases in the Bank's resources would enable it to step up its annual operations to between 550 and 600 million dollars and to extend its activities to Latin American economic integration, agricultural development, education and health.

The recent meeting at Punta del Este had supported the creation of the Latin American Common Market and IDB had been assigned an important role in promoting and implementing several programmes. The Bank had been engaged in similar activities since the establishment of the Pre-Investment Fund for Latin American Integration. The first loan from the Fund's resources was granted in July 1966 for the study of an expansion of the Aracay hydroelectric plant, which would extend Paraguay's electrification programme and supply power to the neighbouring zones of Brazil and Argentina. Similarly, preliminary work had begun on the establishment of the Inter-American Telecommunications Network. The countries of the River Plate Basin had requested a preliminary study on the prospects for the integrated development of the Basin's resources, and preparatory work had already begun. Moreover, IDB had organized a round-table discussion on the agricultural sector, at which the fundamental problems of that sector of the Latin American economy had been discussed and important conclusions had been reached. As a major source of external financing, IDB hoped to increase significantly the level of its loans and its activities in the member countries.

Mr. SCHATAN (Food and Agriculture Organization) drew attention to the programmes and meetings in which FAO had worked in special collaboration with ECLA, the results achieved in agriculture as a result of that co-operation, obstacles hampering more rapid agricultural development and the efforts which would have to be made if agriculture was to play its proper role in the development of Latin America. By 1980, Latin America would have to produce enough food to feed 300 million people and would also have to increase its

/agricultural exports.

agricultural exports. In other words, productivity would have to be raised by modernizing farming methods and making increasing use of fertilizers, and for that purpose greater investment was essential. The modernization of agriculture should be accompanied by industrial development, which would provide agriculture with essential capital goods and meet the growing demand of the rural population for consumer goods. Integration would enable the natural advantages of each area to be exploited more fully and would combat the tendency to place too much emphasis on economic autarky. FAO intended to continue to co-operate to the best of its ability in the attainment of those objectives.

Mr. BALENSI (General Agreement on Tariffs and Trade) explained the operation of GATT, an organization with over seventy member countries. Trade agreements among those countries were based on the most-favoured-nation clause, but absolute reciprocity was never applied to the letter; indeed, it could not be applied to the less developed countries without creating ludicrous situations. In keeping with that concept, the non-reciprocity rule had been adopted, thus enabling the developing countries to take part in the Kennedy Round on favourable terms. Economic integration problems were interpreted in a flexible way in GATT, with attention given to possibilities of concluding preferential agreements between developing countries in cases where there would be no point in extending them to the industrialized countries, and negotiations were held on specific products and were governed by the particular conditions applicable to each individual case.

Although membership in GATT was not incompatible with participation in other international institutions, Uruguay was the only Latin American member. GATT had been criticized for not being sufficiently representative of the third world; it could counter that criticism by arguing that the Latin American countries had not formed a bloc within any preferential system and that, therefore, their position could not carry the same weight as the African bloc, comprising twenty-seven countries, or of the 700 million inhabitants of Asia.

The observer from GATT replied to other criticisms by stating that it should not be forgotten that international trade was the *raison d'être* of the body he represented and that many criticisms had to do with trade in products

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which was affected more by social and political factors than by trade considerations. That was true of certain primary commodities. GATT would always be prepared to co-operate with countries requesting its assistance. It was already providing advisory services on trade in a number of products of developing countries, even though those countries were not members of GATT or of the International Trade Institute which had been created for that purpose.

Mr. O. MARTINEZ (Organization of American States) made a few general comments on the tasks being carried out by the technical organs of the inter-American system and to the co-operation between those organs and the secretariat of ECLA. The new tasks confronting the Latin American countries arising out of the Declaration of Punta del Este had economic, social and cultural ramifications that would call for an increase in that co-operation. Much of the work carried out jointly by ECLA and the OAS, particularly that accomplished within the framework of the Alliance for Progress, had yielded good results. Future collaboration would be broader in scope, more vigorous and more effective, and would be directed towards improving particularly Latin America's foreign trade, as advocated in chapter III of the Declaration of Punta del Este. To that end, ICAP and other regional bodies would soon present to the Inter-American Economic and Social Council a plan for the measures, instruments and action programmes to give effect to the decisions adopted. Within a few days the Secretary-General of UNCTAD, the Governors of IDB, ICAP and the Executive Secretary of ECLA would meet to study a draft of that plan.

The Declaration of Punta del Este was a decisive step forward in inter-American relations and gave new impulse to the international co-operation launched with the creation of the Alliance for Progress. The Declaration established measures which were broader in scope and could better attain the targets fixed when the Alliance was created. However the real significance of the Declaration of the Chiefs of State lay not so much in the formal commitments entered into, as in the spirit of solidarity and firm determination to co-operate which had been reflected in both the formal debates and the informal discussions. That same spirit should inspire just and equitable formulas and constructive measures for carrying out the commitments made, and the secretariats

of the OAS and ICAP would do their utmost to achieve that result.

Miss VIEIRA (United Nations Educational, Scientific and Cultural Organization) referred to the activities being carried out by UNESCO, in co-operation with ECLA and the Latin American Institute for Economic and Social Planning, in combating low educational levels, conducting mass literacy campaigns and promoting the dissemination of technical know-how at various levels. In that connexion, she drew attention to several documents prepared by ECLA, the positive results achieved at various conferences and, most recently, at the Seminar on Investment in Education, which had recently been held at Santiago, Chile, and had been cited in the Executive Secretary's opening address as an example of co-operation between ECLA and UNESCO. Similarly, the Latin American Institute for Economic and Social Planning had established an educational planning section, with the co-operation of UNESCO officials. Closer co-operation between economists and educators, which was also reflected in the discussion at the present session of such topics as school attendance levels and the degree of technical training achieved, would help to eliminate the limitations which an uneducated population imposed in any attempt to further economic and social progress.

The meeting rose at 7 p.m.