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THE LATIN AMERICAN MOVEMENT TOWARDS
MULTILATERAL ECONOMIC CO-OPERATION

Note: This document will be considered at the third session of the ECLA Trade Committee, which will be held at Caracas concurrently with the ninth session of the Commission.



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INTRODUCTION

1. Important events have recently occurred in the field of inter-Latin American trade and multilateral economic co-operation. Now that the preliminary stage of technical studies on specific problems of reciprocal trade or the analysis of possible integration formulae is over, many countries are fully launched upon a period of practical achievements, by virtue of the multilateral instruments concluded to that end - the Montevideo Treaty and the agreements concerted by the Central American countries.^{1/}

In the present report the secretariat briefly reviews the developments that have been taking place in respect of economic integration in Latin America since the second session of the ECLA Trade Committee (Panama, May 1959). The first subjects dealt with are the establishment of the Latin American Free-Trade Association and the future implications of the implementation of the Montevideo Treaty in relation to trade with the rest of the world. A description of the recent consultations on trade policy ensues, to be followed by consideration of other aspects of the work on the common market project, including activities in the field of customs tariffs and foreign trade régimes, as well as in that of nomenclature and other technical customs questions. Lastly, some account is given of the secretariat's work and activities pursuant to the resolutions of the Trade Committee.

I. LATIN AMERICAN FREE-TRADE ASSOCIATION

1. Signature of the Montevideo Treaty

2. In February 1960 the Governments of Argentina, Brazil, Chile, Mexico, Paraguay, Peru and Uruguay signed the Montevideo Treaty, whereby the Latin American Free-Trade Association is constituted in the form of a Free-Trade Area. As is well-known, the first steps towards the establishment of this Association were dictated by aims of much more limited scope than those subsequently recognized as inherent in the organization arising out of the Treaty. The countries responsible for this initial action were Argentina, Brazil, Chile and Uruguay, which together have long accounted for a major

^{1/} As activities in Central America are described in separate secretariat documents (see especially E/CN.12/552), it was not considered necessary to discuss them in the present text.

share of inter-Latin American trade. The radical reform of their exchange and tariff régimes effected by some of these countries was among the principal factors that impelled them to seek some way of incorporating the bilateral trade agreements which they periodically concluded in a multilateral framework. The successive series of meetings held for this purpose, first at the technical level and later at that of inter-governmental negotiations, witnessed the gradual emergence of the idea of concerting a multilateral agreement on bases conducive not only to the encouragement of reciprocal trade but also to the attainment of more important objectives, such as that of stimulating the expansion and diversification of production in each of the individual countries by the broadening of the market.

3. Prior to the signature of the Montevideo Treaty, the four countries listed above had been joined by three more - Paraguay, Peru and Mexico. Bolivia too took part in the negotiations, although it did not actually sign the agreement, leaving its decision pending when the Treaty was officially concerted in February 1960. The considerable enlargement of the original group of countries, and the provisions incorporated in the text of the agreement to facilitate the unconditional accession of new members without prior negotiations, eliminated from the Treaty all suggestion of a sub-regional bloc and, on the contrary, invested it with the unmistakable characteristics of a Latin American agreement proper. Moreover, the inclusion in the text of such clauses as those establishing special measures in favour of countries at a relatively less advanced stage of economic development, or others designed to promote industrial complementarity, added to the trade aims of the agreement the further and much more vitally important purpose of serving as an instrument for expediting the economic development of the Contracting Parties.

2. Recommendations of the Trade Committee for the constitution of
the common market

4. It may be recalled that while the technical work and negotiations leading to the signature of the Montevideo Treaty were under way, the second session of the ECLA Trade Committee was held in Panama (May 1959). At these meetings, the representatives of the member Governments studied the recommendations concerning the structure and basic principles of a possible Latin American

/common market

common market which had been formulated by the Working Group on the Latin American Regional Market at its second session (Mexico City, February 1959). As a result of its deliberations, the Trade Committee adopted resolution 6 (II), recommending, in paragraph 1 of the operative part, certain general principles to be observed in the constitution of the said regional market which should:

- (a) Include all the Latin American countries which decide to participate in its formation;
- (b) Remain open to the accession of other Latin American countries;
- (c) Operate on competitive bases and comprise the largest possible number of products;
- (d) Take into consideration the inequalities that exist among the Latin American countries in so far as their economic development is concerned;
- (e) Be characterized by the progressive standardization of the customs tariff and other instruments of trade policy of the Latin American countries, in the relations with other areas, due allowance being made for international commitments;
- (f) Depend, for its realization, on the widest possible collaboration on the part of private enterprise;
- (g) Promote increasing specialization in economic activities, in order to improve utilization of the production factors available in the region; and
- (h) Contribute to the expansion and diversification of trade among the Latin American countries, and between them and the rest of the world.

3. Relation between the recommendations of the Trade Committee and the Montevideo Treaty

5. In order to evaluate the significance of the Treaty for the possible establishment of the common market, it must be considered whether the principles whose observance was recommended by the Trade Committee were followed in the agreement creating the Free-Trade Area.

To this end, the principles in question may be briefly compared with those adopted in the Montevideo Treaty, in the same order in which they are

/listed in

listed in the relevant recommendation of the Trade Committee,

(a) and (b) These principles, relating to the breadth of the market in respect of the number of member countries and to facilities for the accession of new members, were incorporated in articles 58 and 59 of the Montevideo Treaty.

(c) The aim underlying this principle is the creation and maintenance of competitive conditions within the Area and the inclusion of the largest possible number of products in the market. Here two considerations must be borne in mind. As regards the first point, the most important of clauses in the Treaty designed to further this end, it is unquestionably article 18, whereby most-favoured-nation treatment is instituted as the pivot of relations among the member countries. With respect to the second objective, in the recommendations concerning the structure and basic principles of the Latin American common market^{2/} that were prepared in Mexico at the above-mentioned second session of the Working Group on the Latin American Regional Market, and that constituted the basis for the Trade Committee recommendations to which several references have been made, it was suggested that the reduction of customs duties and other charges of equivalent effect should embrace all the goods covered by the customs tariff. For various reasons, in the Montevideo Treaty these reductions were confined to the goods comprising substantially all existing trade. But, at the same time, the negotiations mechanism facilitates the addition to the National Schedules and the Common Schedule of an increasing number of products not yet included in the Contracting Parties' reciprocal trade.

(d) This aspect of the Trade Committee's recommendations is contemplated in chapter VIII of the Treaty, which provides for the application of certain measures in favour of countries at a relatively less advanced stage of economic development, in order that their economic growth may be smoothly co-ordinated, at rising levels, with that of the other members. The measures that might be adopted for the benefit of countries in this position include the

^{2/} See The Latin American Common Market, United Nations Publications, Sales No: 59.II.G.4. pp.38 et seq.

/following (i)

following: (i) the concession to their exports, for a given period, of customs advantages not extended to the other Contracting Parties, in order to encourage the introduction or expansion of specific productive activities; (ii) authorization to implement the programme for the reduction and elimination of customs duties and other restrictions on imports from within the Area under more favourable conditions than those generally stipulated; (iii) the making of collective arrangements on the part of the States members of the Association to support or finance projects for the establishment of new lines of production or the expansion or technical improvement of those already in existence; and (iv) co-operation in technical assistance programmes.

(e) The principle relating to the progressive standardization that should characterize the customs tariffs and other instruments of trade policy of the States members of the common market in their relations with one another and with the rest of the world is also incorporated in the Montevideo Treaty, since in chapter III the signatories declare their intention of reconciling their import and export régimes, as well as the treatments applicable to capital, goods and services from outside the Area. Furthermore, the Treaty provides for the progressively closer co-ordination of industrialization policies, and pledges the Contracting Parties to channel their policies towards the creation of conditions favourable to the establishment of the Latin American common market. But as the Association set up by the Montevideo Treaty is a Free-Trade Area, its terms of reference do not include the standardization of customs tariff vis-à-vis third countries. The Treaty implies the possibility of such a decision being adopted when, on the expiration of the twelve-year term referred to in article 61, the Contracting Parties proceed to study the results obtained and to negotiate the adaptation of the Treaty " to a new stage of economic integration".

(f) To the collaboration of private enterprise in the creation and operation of the common market, advocated in paragraph (f) of the recommendations of the Trade Committee, basic importance is assigned in the Montevideo Treaty. Liberalization measures will often be sponsored by the private sector. In particular, the Treaty contemplates understandings between representatives of private activity as means of promoting the practical integration and complementarity of the economies of the Contracting Parties.

/In addition,

In addition, article 43 of the Treaty provides for the constitution of Advisory Commissions composed of representatives of private enterprise.

(g) The importance of promoting specialization in productive activities, as suggested in the relevant paragraph of the Trade Committee's recommendations, is not overlooked in the Montevideo Treaty. The linking-up of individual country markets as a result of the trade liberalization process is bound to pave the way for specialization. Moreover, the gradual coordination of national industrial development policies and the concerting of complementarity agreements at that level, will indubitably be conducive to the more efficient utilization of available resources.

(h) A fundamental requisite for any common market agreement is that its provisions should in no way hinder the expansion of the member countries' aggregate trade. The rules of the General Agreement on Tariffs and Trade (GATT), to which the Montevideo Treaty conforms, expressly states that a free-trade area or customs union agreement designed to facilitate trade and economic integration among the constituent territories should seek to achieve these ends without raising barriers to trade between the said territories and third countries. The Governments signatories of the Montevideo Treaty made every endeavour to reconcile the provisions of this instrument with the safeguarding of the expansion of aggregate trade. Furthermore, when the Contracting Parties of the GATT studied the Montevideo Treaty at their seventeenth session (Geneva, November 1960)^{3/}, no incompatibility between its provisions and the relevant clauses of the GATT was called in question.

As regards aggregate trade, it seems likely that the Montevideo Treaty will help to strengthen the Contracting Parties' capacity for external trade negotiation. Vis-a-vis international organizations such as the European Economic Community (EEC) and the European Free-Trade Association (EFTA), joint action on the part of the signatories of the Treaty - which, in combination, represent an importer market with a powerful capacity to negotiate - might facilitate the conclusion of co-operation agreements to solve problems created for Latin American exports by the special régime of the organizations in question. Collective action in respect of the share

^{3/} See section 8, paragraphs 18 and 20, below.

of Latin American production in international quotas, and in trade policy in general, might also be facilitated by this means. In order to establish the contacts and, at a possible future date, conduct the negotiations leading up to agreements in the common interest of the Latin American countries and those belonging to the above-mentioned European groups, a certain amount of data on the goods that might be considered in this connection should be assembled and subjected to prior technical study, with due regard to the points of view of all the parties concerned. At the same time, the lack of a background study of this kind seems attributable to the want of anything that might properly be termed progress towards the practical solution of certain problems which the formation of the groups referred to is creating for the external trade of some Latin American countries.

4. Limitations to be overcome

6. It has just been shown that the guiding principles suggested by the Trade Committee is desirable for the formation of the Latin American common market are, broadly speaking, those adopted in the Montevideo Treaty. This, of course, does not mean that a technical appraisal of this instrument would fail to detect marked limitations. They do exist, and in essence reflect the fact that it is naturally impossible to solve once and for all the complex problems deriving from the relative isolation in which the economies of the Contracting Parties have been developing. These limitations, however, do not seriously detract from the merits of the Treaty since its provisions afford ways and means of gradually overcoming, at the level of permanent trade and economic co-operation, the difficulties inherent in action of such wide and complex scope as that contemplated in the instrument in question. Moreover - and this must be reckoned among its important short-term effects - the Treaty abolishes the discriminatory treatment deriving from the bilateral agreements maintained by the Contracting Parties.

7. Either because of precise stipulations in the text of the Treaty, or owing to the existence of lacunae, the chief limitations of the instrument seem to lie in the following three fields: (a) the export régime; (b) the import liberalization programme; and (c) action in favour of agriculture.

/(a) The

(a) The export régime

8. The Treaty makes no provision for the liberalization of export trade. It is common knowledge that, in the case of some Latin American countries, their permits system and the belated establishment of export quotas - especially where agricultural commodities are concerned - have been among the factors directly responsible for the inadequate expansion of inter-Latin American trade and a progressive narrowing of horizons in the realm of complementarity. Moreover, the Treaty requires that prior agreement be reached before goods can be re-exported within the Area, apparently with the intention of forestalling operations designed to exploit exchange differentials resulting from the variations in member countries' payments systems.

In connection both with exports and with re-exports, the organs of the Treaty are confronted with a supremely important task - that of devising and gradually applying a régime in harmony with the essential characteristics of free-trade areas in respect of the liberalization of trade.

(b) Programme of import liberalization

9. The commitments assumed by the member countries with respect to the liberalization of imports are confined to existing trade, which mainly consists of a fairly small number of primary commodities. In addition, the bulk of that trade has already been freed to a certain extent, albeit on a bilateral basis, or at least benefits from reductions and special treatment in respect of charges and other controls. The mere fulfilment of the obligations originally accepted in the Treaty will not provide Latin America with the strong dynamic impetus without which it will not be possible to link up the national markets of the manufacturing industries that have no trade at present but have much greater possibilities of expansion and development than the traditional sectors of production.

The liberalization programme of the Treaty is founded on a process by which the participants make reductions, which can be averaged, in such a way that the choice of goods to which such reductions are to apply will depend on the result of the annual negotiations. While the Area is being established, the system gives each country sufficient leeway to avoid or mitigate disruptions in existing productive activities, as well as to strike a fair balance

/between concessions

between concessions granted and those received. But this very flexibility makes it uncertain whether for specific articles, whose liberalization is of interest to certain countries or is necessary for some or all of them in order to stimulate investment for the production of the said articles, the indispensable collective decision will ultimately materialize to guarantee their untrammelled circulation in the territory of the Area once the twelve-year period is over. In view of these and other considerations relating to the aim of initiating the new lines of trade pursued as the prime object of the establishment of the Area, it will be very interesting to make a close examination of the results of the first years of application of the Treaty. In this way, it will be feasible to consider, in addition to the obligations laid down in the Treaty, the gradual assumption of further commitments - as well as the degree of gradualness involved - that would help to ensure the fulfilment of the aims pursued. The Treaty makes it possible to concert such supplementary commitments and hence formulas could conceivably be devised whereby the commitments might be carried out for either individual items or groups of articles, by different methods such as averages or maximum duties. Moreover, the scope of the liberalization process will undoubtedly be affected by the way in which the member countries apply, by industrial sectors, the complementarity agreements provided for in chapter III of the Treaty.

(c) Action in favour of agriculture

10. Agriculture is in a peculiar position in the programme for the establishment of the Free-Trade Area, possibly because of the following special circumstances:

(i) The liberalization of trade in agricultural commodities is essential if the Free-Trade Area is to be constituted in keeping with its rules, since such commodities account for the major part of trade.

(ii) The obstacles to the liberalization of trade in agricultural commodities seem to be even greater for the Latin American Free-Trade Association than for the European groups. Protectionist policy has predominated in the case of certain Latin American agricultural commodities, perhaps even more intensively than in other sectors of economic activity. This has enhanced the isolation from foreign competition in which such

/commodities often

commodities often find themselves. It has also facilitated the expansion of relatively low-yield activities, which has meant fewer incentives for agricultural productivity. At the same time, for reasons partly related to the land tenure system, a general and marked imbalance has emerged between agricultural investment and investment in other activities that offer more attractive prospects. Moreover, influence is often brought to bear on the internal distribution of different agricultural commodities, this adding to the motivating factors behind the imbalance, since it may result in the reduction and even elimination of agricultural profits through the establishment of official prices. Thus, there emerges a picture in which the widening gap between the rate of growth in the agricultural and in the industrial sector continues to impair the balanced progress of the national economies.

(iii) Latin American agriculture needs to expand vigorously, and it is inconceivable that the integration process should result in the discouragement or abandonment of certain domestic lines of production, especially since agricultural production in Latin America is lagging behind the growth of population and of consumption.^{4/}

This is illustrated by the fact that total wheat production rose from 8.1 million tons in 1934-38 to 10.9 million tons in 1955-57, but dropped from 70.1 kilogrammes per capita in the first period to only 60.8 in the second, while average annual consumption went up from 47.2 to 55.5 kilogrammes per capita. From these and other data, it may be estimated that total wheat consumption in Latin America - which is now about 10 million tons a year - will be about 20 million tons by 1975, and that, even if the countries with a production deficit have put all suitable land under wheat and improved their respective yields by then, their import requirements, which currently stand at some 3.5 million tons, will continue to mount until they reach about 6 million.

11. Although it is hoped that it will be possible to use the Montevideo Treaty to foster the progress of agricultural activity, it contains no

^{4/} See The role of agricultural commodities in the proposed Latin American regional market (E/CN.12/499).

specific agreement or commitment on the acceleration of agricultural development and, therefore, the increase of individual income in that sector. Nor does it lay down any principles for collective action to soften the impact of certain aspects of the liberalization programme for trade in agricultural commodities on the structure of the agricultural sector. The wording of the pertinent provisions in the Treaty makes it clear that each country's agricultural sector may be protected - at least during the twelve years while the Area is being established - from the repercussions of competition from similar goods originating in the territory of other associated countries, since each may limit agricultural imports to the difference between their internal production and consumption. As regards other aspects, the Treaty confines itself to ensuring that the Contracting Parties will seek to co-ordinate their agricultural policies with a view to securing the most efficient utilization of their natural resources, without disorganizing internal production and without taking any measures that might be liable to lower the average level of productivity prevailing before. In short, the Treaty contains specific provisions of a defensive nature only, since no support was forthcoming for the idea, discussed during the preparatory stage of the work, that the Treaty's organs should be asked to draw up, within a given period of time, a joint programme to improve agricultural productivity and overcome the serious problems arising from the fact that agricultural output is expanding less rapidly than the population. This idea eventually had to be expressed merely in the very general terms in which the Treaty refers to the problem.

12. The Treaty provides a great opportunity for rectifying certain distortions that have appeared in the structure of Latin American agriculture as a result of the tendency to regard each country as a watertight compartment within which the widest possible range of goods should be produced without reference to international specialization. If markets are linked up, however, each country will be able to devote its resources to those lines of production in which it is at a relative advantage, to try to sell its surpluses in other markets of the Area and to change the destination of its marginal production. By these means, it would raise its level of productivity to the benefit of the economy as a whole. The twelve-year

/period will

period will have to be used for this redirection of agricultural production, which will necessitate the collaboration of all the Contracting Parties, since it is inconceivable that, as a result of the institution of the Free-Trade Area, land or labour would cease to be used in any of the participating countries. On the contrary, the Treaty should be regarded as an instrument for promoting the expansion of Latin American agriculture and improving its efficiency and productivity.

5. Co-ordination in industrial development

13. The first negotiations within the organs of the Montevideo Treaty may be somewhat handicapped by the fact that similar industries are being developed concurrently in several of the member countries with exporting in view. For this reason, and also because of the marked disparities in the degree of industrial development attained by the countries constituting the Area, it seems evident that, during the latter's period of formation, the tariff negotiations would be facilitated if the national industrialization policies contemplated in the Treaty could be co-ordinated more rapidly.

6. Payments and credits

14. As already noted in the course of the studies and negotiations preparatory to the Montevideo Treaty, the participating countries agree that, for the satisfactory operation of the Association - as of any common market project properly speaking - solutions must be found for the problems that exist in the field of payments and credits. The salient aspects of these problems are as follows:

(a) Among the signatory States, as well as in Latin America as a whole, a feature of intra-regional trade is the co-existence of dissimilar payments régimes: bilateral accounts and systems for the settlement of transactions on the basis of United States dollars. This lack of uniformity might lead to discrimination and restrictions in trade that are incompatible with the multilateral and unrestricted character of trade in a free-trade area. It might also be a source of discouragement to investors who are interested in establishing enterprises to supply the whole Area or more than one member country, since the lack of multilateralism in payment will

/inevitably raise

inevitably raise doubts as to whether the requisite flow of exports and imports can be maintained without interruption.

(b) As intra-Latin American trade constitutes a small proportion of Latin America's overall trade, it would be difficult to make any great distinction between the payments system adopted for the former and that used by each individual country in its overall trade.

(c) In several of the countries acceding to the Montevideo Treaty, the general payments system has been developing on sound lines. A shift is in progress from bilateralism to multilateralism. Controls on foreign trade are becoming indirect instead of direct. The appreciable reduction in the number of inter-Latin American bilateral accounts as a result of this change has made it unlikely that a system could be set up - as believed in previous years - on the basis of suitably adapted bilateral accounts through which the settlement of balances might be periodically effected. Nevertheless, from the technical standpoint, there is no reason why a multilateral credit system should not be established - if the countries concerned deem it opportune - under conditions that are compatible with the desired system of convertibility and conducive to its full achievement. The experience acquired in connection with the European monetary agreement in force in Western Europe is a valuable source of reference in this respect.

(d) Bilateral accounts have not yet been abolished between some important pairs of trading countries: Argentina-Brazil, Argentina-Uruguay, Brazil-Chile and Brazil-Uruguay. These four accounts operate in accordance with the rules common to the Standard Agreement and to the agreement on standard banking procedure for the operational régime of the clearing accounts, recommended at the first session of the Central Banks Working Group (Montevideo, 1957). This has made it possible to narrow the gap between multilateral trade procedures and those used for trade transactions through the above-mentioned accounts.

As a general rule, these accounts show big seasonal increases in their balances, which are eventually settled in the form of goods, frequently to the detriment of the terms of trade of one country or another. Actual dollars are not used for this, even when the debit balance exceeds the credit ceiling specified in the relevant agreements. So far, countries holding

/such accounts

such accounts have felt that their abolition would reduce the scale of their trade, since it would have to be financed with actual dollars which are usually in short supply. In addition, a large part of the trade covered by these accounts consists of agricultural commodities similar to those that used to be purchased in the United States - under Public Law 480 - on attractive medium- or long-term credit terms. If, for the same commodities of Latin American origin, the credit margin provided for in the bilateral accounts were to disappear - upon the abolition of the said accounts - some other credit system would have to be devised for certain traditional commodities in order to ward off a possible reduction in the magnitude of the corresponding flows.

Nevertheless, it is recognized that, for the development of the Free-Trade Area, it is undesirable that the above-mentioned bilateral accounts should ever operate in isolation. In the past, the freezing of big balances often meant that purchases had to be made when prices were unfavourable for the creditor country. The system of negotiation and multilateral movements proper to the Free-Trade Area will make it progressively harder for bilateral balances to be used in that way. This is one more reason why the payments system should conform within the Area to the system of multilateral liberalization which is the purpose of the Area.

(e) One of the economic aims of the Free-Trade Area is to develop production of and trade in durable manufactures, especially capital goods. Among the financial problems that are likely to arise from the incorporation into trade of new articles that differ from the traditional items, two are outstanding: (i) how to institute some kind of reciprocal credit in order to prevent the temporary disequilibria, caused by the introduction into trade of goods other than the traditional items, from inducing the debtor to take restrictive measures which would slow up the liberalization process; (ii) how to provide credit to stimulate or pave the way for trade in certain manufactured products and capital goods which are offered by countries outside the Area for periods of up to ten years. The competitive position of similar lines of production originating in the Area will naturally be influenced by the price and by the credit terms obtained for financing trade transactions.

15. At a session held in Uruguay in January 1960, the Central Banks of the countries then negotiating the Montevideo Treaty made a lengthy examination of the problems raised. Apart from deeming it advisable to undertake further technical studies on such aspects, the group unanimously decided to postpone consideration of the possible solutions until the Treaty had been put into effect, and, in the meantime, came to the following conclusions: (a) with regard to payments, the aim was full currency convertibility; (b) the coexistence of different systems of payments and credits in the area was not incompatible with the entry into operation of the Free-Trade Area, in which, nevertheless, every attempt should be made to prevent any discrimination that might arise as a result of the above-mentioned coexistence; and (c) for the Free-Trade Area to fulfil its purposes, it would be desirable to facilitate the more extensive use of credits on an adequate scale to finance intra-Area transactions.

16. When the Inter-Governmental Conference for the Establishment of a Free-Trade Area among Latin American Countries met in February 1960 and took note of the report of the Central Banks session, it adopted a resolution requesting the Executive Secretary of ECLA to organize new meetings of Central Banks with a view to continuing the studies on credits and payments so as to facilitate the financing of intra-Area transactions. For the consideration of the relevant points, the States signatories of the Montevideo Treaty agreed to request the advice and technical assistance of ECLA, the Inter-American Economic and Social Council (IA-ECOSOC) and the International Monetary Fund.^{5/}

7. Ratification

17. At the date of drafting of this report - February 1961 - the parliaments of six of the seven signatory States had already ratified the Montevideo Treaty. These were: Argentina, Brazil, Chile, Mexico, Paraguay and Peru. At the same time, constitutional steps had been taken for parliamentary ratification by the other signatory: Uruguay. Although article 57 of the Treaty provides that it may come into force 30 days after the deposit at Montevideo of the third instrument of ratification, the signatory countries agreed to make such deposit simultaneously, and it is expected that this will occur in the near future.

^{5/} See resolution I of 18 February 1960.

8. Study by GATT

18. To ascertain whether or not the rules laid down in article XXIV of GATT regarding the formation of free-trade areas were compatible with the provisions of the Montevideo Treaty, the latter was studied in a spirit of co-operation between the Contracting Parties of the Treaty and the secretariat of the GATT during the last two sessions of that Organization (Geneva, May and November 1960). The study was extremely useful in helping to clarify the way in which the Montevideo Treaty has - or ought - to be implemented for the proper fulfilment of its purposes.

During the study, third countries expressed concern that the provisions of the Treaty might not be compatible with the articles of the GATT.^{6/} One of the main causes for concern was the following: to give the goods traded within the Area the special treatment peculiar to the Free-Trade Area, the Treaty uses the expedient of abolishing customs duties and other types of restrictions on substantially all trade. According to some interpretations regarding the scope of certain provisions of GATT, the abolition of restrictions other than customs restrictions should cover all countries in the world and not be confined to the signatories of the Montevideo Treaty.

19. The signatories of the Montevideo Treaty, basing their arguments on the standards established by GATT, maintained that, in concluding the Treaty, they had acted in the belief that the abolition of customs duties and other restrictions was of the essence of a free-trade area. Furthermore, the partial abolition of these restrictions had for long been established practice in inter-Latin American trade in pursuance of bilateral agreements or simple unilateral measures. The signatory countries had in addition showed themselves willing to fulfil to the letter the international commitments regarding the application of restrictions which they had assumed when they had become members of GATT - if such they were - or of the International Monetary Fund. In accordance with these commitments, if balance-of-payments difficulties, which were usually the cause of the application of restrictions, diminished or disappeared, the restrictions were necessarily relaxed or abolished in respect of all countries.

^{6/} See GATT L/1311 of 13 October 1960.

20. As a result of the aforementioned study and after taking note of the decision of the signatories of the Montevideo Treaty to complete the establishment of the Free-Trade Area within the time limit of twelve years provided for in the Treaty, the Contracting Parties of GATT reached the conclusions set forth briefly below:

(a) It is difficult to pass final judgement on certain legal and practical questions on the basis of the text of the Montevideo Treaty alone. Such questions should accordingly be reconsidered in the light of experience derived from the application of the Treaty. Consequently, the Contracting Parties consider that there is for the moment no reason to address recommendations based on article XXIV 7b, to the countries members of the Montevideo Treaty;

(b) This conclusion does not detract from the validity of the rights conferred on the Contracting Parties of GATT under article XXIV, nor does it prevent the signatories of the Montevideo Treaty from putting the provisions of that instrument into effect immediately after its ratification;

(c) The Contracting Parties of GATT express their satisfaction at the fact that the countries members of the Treaty which are also members of GATT are prepared to provide information, in accordance with article XXII of GATT, regarding measures adopted in pursuance of the Treaty, and later, to supply further information in accordance with article XXIV 7a of GATT, as the establishment of the Latin American Free-Trade Association proceeds.

(d) The Contracting Parties of GATT will be entitled to apply all other normal procedures established under GATT in order to examine the bases of any measure adopted in execution of the Montevideo Treaty. In addition, the signatories of the Treaty are free to invoke the provisions of article XXIV when they consider that they justify a particular measure.

9. Position of Bolivia

21. Although Bolivia took part in the negotiations between Governments, it has not so far decided to join the Treaty. It was granted a moratorium, expiring 31 March 1961, to accede to the Treaty as a signatory State. After that date, Bolivia could become a member State in accordance with article 57 of the Treaty and it should be pointed out that there is in reality no

/difference in

difference in status between the two types of accession.

22. The position of Bolivia in respect of the Treaty has certain special characteristics. About one fifth of the country's total imports are from the countries of the Free-Trade Area, which in their turn purchase a proportionately much smaller percentage of total Bolivian exports - approximately 3 per cent. Bolivia's purchases include a considerable proportion of manufactured goods.

23. The main motives of concern to which participation in the Free-Trade Area seems to have given rise in Bolivian circles could be summarized as follows:

(a) Unquestionably, if Bolivia joins the Free-Trade Area, its trade with the Area will increase, reducing its balance-of-trade disequilibrium with the associated countries; but it is doubtful whether it will be possible for Bolivia to produce and sell in the Free-Trade Area any sizeable quantities of Bolivian goods other than primary commodities. The latter would continue to be subject to greater competition throughout the region than manufactured goods, because normally the countries of the Free-Trade Area protect primary commodities to only a slight extent by means of customs duties and other barriers. It is feared that the stimulus created by the removal within the Free-Trade Area of duties and barriers in respect of primary commodities is extremely unlikely to result in greater relative income for Bolivia. This is connected with the high proportion represented by transport costs in the price of Bolivian primary commodity exports; on the other hand, transport costs account for a far smaller portion of the cost of the manufactured goods which Bolivia imports from the Free-Trade Area.

Against its exports, Bolivia will receive from the Free-Trade Area a growing quantity of manufactured goods. The price of such goods may continue to be influenced for some time by the size of the barriers which the countries of the Free-Trade Area maintain and will certainly continue to maintain against imports of manufactured goods from the rest of the world. Consequently, the growth of Bolivia's trade with the Area could accentuate the present unfavourable trend in Bolivia's intra-Latin American terms of trade unless there were broad collaboration which would facilitate Bolivian participation in the production and export of manufactured goods from the Montevideo Treaty countries.

(b) As Bolivia's imports from the Area include an appreciable amount of manufactured goods, the liberalization of trade would involve for Bolivia imports of a larger proportion of manufactured goods than would be the case for countries whose imports consist mainly of primary commodities. That might affect the development in Bolivia of certain even rudimentary industries.

(c) It has not been clarified what effect the Montevideo Treaty would have on certain agreements designed to regulate given types of border trade or to grant Bolivia free zones in river and sea ports.

(d) In brief, the structure of Bolivian production, which is less diversified and technically advanced than in other countries in the area, together with transport problems would make it relatively more difficult for the Bolivian economy to benefit from the advantages which the Free-Trade Area will in general offer its members.

24. On the other hand, some of the considerations favouring Bolivia's Participation in the Montevideo Treaty might be summarized as follows:

(a) The Treaty contains elements - for example, the principle of reciprocity, differential customs treatment for less developed countries, special provisions on agriculture and complementarity agreements - designed to promote the co-ordinated economic growth of the participants. In addition, the rate of investment which the larger size of the market will permit is bound to result in the prices of goods manufactured in the Area becoming competitive with those of goods from elsewhere.

(b) The difficulties which the present structure of the Bolivian economy put in the way of the country's profitable participation in the Area are practically identical to those experienced by Bolivia in its world trade. The Treaty, however, contains elements likely to lessen or eliminate such difficulties. The development of the Mutum iron ore mines - whether for export unrefined or for the production of cast iron for Argentina and Brazil -, the higher concentration of tin, the smelting and refining of lead and other metals, the manufacture of asbestos goods and sleepers, the possible contribution of sulphur in satisfying the growing demand for solubles in some countries of the Area, and the greater diversification of the national economy will go forward more satisfactorily if the various relevant projects

/are undertaken

are undertaken under the special régime provided for in the Treaty for members whose economic position is relatively weak.

(c) As has been observed in Benelux and as is occurring in the European Common Market, enterprises planning high-investment industries for a large market tend to situate their plants not in one country but in several in combination, so as to link up directly with the economy of the country concerned and hereby obtain better facilities and ensure greater stability in the development of their business. The same will presumably occur within the territory of the Association. Furthermore, in the less developed countries - in contrast to the more advanced countries - the impact on the national budget of the industrial taxation system is slight. Such countries are accordingly able to offer capital a very attractive incentive.

(d) The Inter-American Development Bank has already established contacts with bodies in the Area. There is reason to believe that such bodies will participate in the preparation of and presentation to the Bank of projects which, to be successful, will require the cooperation of different markets and corresponding customs tariff adjustments.

(e) Technically, there would seem to be no reason why the special régime for the less developed countries should not lessen Bolivia's obligation to liberalize imports of manufactured goods to the extent that exports of Bolivian goods are able to find an outlet in the market of the Area thanks to the liberalization measures granted by the other members. This would counterbalance the difficulties which a liberalization programme would create for Bolivia as a result of the peculiar structure of its imports.

(f) To increase the exploitation and exportation of Bolivian petroleum it would be to Bolivia's advantage to belong to an Area which at present suffers from a petroleum deficit, and it is reasonable to presume that mutually beneficial solutions to the problems of supply and industrialization of by-products should be sought among the members of the Area. This could be all the more important for Bolivia if - as is likely - the present excess of supply over demand persists on the world petroleum market.

(g) The countries of the Area will consider jointly the vital problems of transport between participating territories and solutions to those problems, for otherwise the purposes of the Association will remain unfulfilled.

/(h) The

(h) The Montevideo Treaty does not abrogate the arrangements regarding trade between adjacent countries, but the signatory States reserve the right to define the meaning of border trade.

25. Although the Treaty makes no reference to either free zones or free ports, clearly the bilateral agreements regulating such matters may remain in force. The countries members of the Treaty are, however, certain to revise free zone and free port arrangements in order to adapt them to the new pattern of trade resulting from the Free-Trade Area.

II. CONSULTATIVE MEETINGS ON TRADE POLICY BETWEEN THE GREATER-COLOMBIA COUNTRIES

26. Some time ago Colombia, Ecuador and Venezuela concluded agreements to consult one another before taking any stand with respect to the Latin American movement towards multilateral economic co-operation. Accordingly, ECLA, at the request of these countries, convened the third series of Consultative Meetings on Trade Policy between the Greater-Colombia countries, held at Quito, Ecuador, in December 1960.

27. The three Governments considered whether it would be to their joint advantage to adopt one of the following courses:

(a) To continue efforts to conclude bilateral agreements between the three countries on the same lines as the bilateral treaty between Ecuador and Colombia;

(b) To conclude a tripartite agreement between Colombia, Ecuador and Venezuela, which would be tantamount to establishing thereby a free-trade area;

(c) To join the multilateral co-operation movement embodied in the Montevideo Treaty.

28. The three Governments, after discussing the advantages and disadvantages of these alternatives, expressed themselves as generally in favour of the formula of broad multilateral Latin American co-operation, on the ground that such a course would be more likely than any more limited measures to achieve the aims of expediting economic development, creating more opportunities for well-paid work for the people, and increasing regional and world trade.

/(a) For

(a) For a number of reasons, Venezuela is not at present in a position to decide on accession to the Montevideo Treaty, although it is fully in sympathy with the idea that Colombia and Ecuador should take this step immediately, since their participation in the Treaty will help to solve certain problems posed by Venezuela's membership which arise from peculiarities of the Venezuelan economy.

(b) Colombia and Venezuela decided to take the first steps required for their accession to the Montevideo Treaty, first making certain changes in the bases of their existing bilateral agreements relating to tariff concessions, to obviate the possibility that, by reason of such agreements, their accession to the Treaty might give rise to certain results harmful to their economies.

(c) The three Governments decided to join in asking the organs of the Montevideo Treaty to recognize that the special provisions in that instrument for the benefit of the relatively less developed countries should apply to Ecuador.

29. The three Governments also asked ECLA's assistance in considering possible solutions to the technical problems and problems of trade policy posed by the accession of Colombia and Ecuador to the Montevideo Treaty, and by the possible accession of Venezuela.^{7/}

III. CUSTOMS TARIFFS AND FOREIGN TRADE REGIMES

30. The Commission's resolutions concerning the Latin American common market rightly emphasize the need to study the present status of customs and foreign trade régimes with respect to those aspects that are of basic concern in the establishment of the common market. Consequently, the ECLA secretariat has carried out an extensive study on the subject, covering eleven countries, which is the first of a series that could usefully be produced on this question.^{8/}

^{7/} The full report of the Third Series of Consultative Meetings on Trade Policy is contained, together with a note by the secretariat in document E/CN.12/555, which is being submitted both to the Trade Committee and to the Commission at their respective sessions.

^{8/} See Customs duties and other import charges and restrictions in Latin American countries: average levels of incidence (E/CN.12/554) for further details. The document has eleven annexes.

/The purposes

The purposes of the study are several: (a) to provide detailed information on what each country imports from abroad, as background data for tariff negotiations intended to expand intra-regional trade in Latin America by the inclusion of additional items, within the framework of multilateral treaties; (b) to ascertain the incidence on the prices of imports of customs duties, and also of other charges and restrictions of similar effect; (c) to give a comparative outline of the import régimes in force in each country; and (d) to provide a basis for considering the possible coordination of the policies followed with respect to customs tariffs and foreign trade régimes by the signatories of the multilateral agreements.

31. At the same time the secretariat is undertaking another study that will provide various data of use in considering what the best criteria might be for determining the direction of national policies for the protection of industry in Latin American countries; in addition, it compares the level of import duties charged in some of those countries - Argentina, Brazil and Chile - with the level in France, where tariffs are high in comparison with those of other Western European countries.

32. The following conclusions may be drawn from the information thus collected:

(a) Generally speaking, and considered as a whole, the duties and other charges and restrictions on imports are, with few exceptions, surprisingly high, and not uncommonly prohibitive;

(b) Capital goods are subject to duties and other charges that are relatively high, although in practice considerable reductions or exemptions are usually granted through administrative channels. In view of the recent establishment of capital goods industries in countries of the Free-Trade Area, a rapid co-ordination of criteria seems to be called for in this field;

(c) In some countries customs duties play only a subsidiary role, whereas measures of similar effect, such as quantitative restrictions and, in some cases, the restrictions deriving from the exchange system, constitute the main burden, given the great lack of uniformity of the import régime,

(d) Domestic industry is usually protected either by banning imports of similar articles from abroad, or by subjecting such articles to such high

/duties or

duties or other restrictions that the effect is virtual prohibition. Such duties and restrictions also exist with respect to imports of certain goods exported by the country concerned;

(e) A considerable proportion of the excessively high protective barriers is an indirect result of the attempt to prevent the use of foreign currency for the importing of non-essential and luxury goods. To some extent the high level of protection undoubtedly encourages the investment of capital in the production of such goods, thus diverting it from other types of production of greater importance to the national economy.

33. These conclusions clearly show how necessary it is to strengthen the recent trend in some Latin American countries towards changing the structure of customs tariffs and import régimes in such a way as both to meet tax needs and safeguard the balance of payments, on the one hand, and develop a rational policy for the protection of domestic industry to promote productivity and achieve a competitive footing, on the other. If this trend could be guided towards the co-ordination of certain aspects of the various national policies at the regional level, the multilateral agreements for market expansion could be expected to produce more fruitful results.

IV. NOMENCLATURE, VALUATION AND DEFINITIONS

34. An event of some significance to the progress of the preparatory work on economic integration and to the attainment of multilateral trade within Latin America was the first session of the Working Group on Customs Questions, held at Montevideo in August 1960, in accordance with the provisions of Trade Committee resolution 7 (II). The Group recommended:

(a) the adoption of the Brussels Tariff Nomenclature (BTN) by the Latin American countries for their national customs tariffs; (b) the use of the BTN for the conduct of negotiations and the presentation of statistics referred to in article 49 (c) of the Montevideo Treaty; (c) the adoption for the valuation of imported goods of the Customs Co-operation Council definition of customs value; and (d) the establishment of training schools for customs officials in Latin America.^{9/}

^{9/} The full report of the session was published as document E/CN.12/C.1/WG.3/4 Rev.1, submitted to the Trade Committee.

35. The unanimous decision to use the BTN reflects the growing world trend to adopt comparable tariffs in order to facilitate negotiations on customs duties, foreign trade relations and the analysis of movements of foreign trade. The adoption of the BTN by the countries of the European Economic Community and those of the European Free-Trade Area was an important development in furthering this trends.^{10/} Moreover, the adoption of the BTN as a national nomenclature will make it possible to draw up a standard statistical classification through the existing correlation (SITC-BTN III: E/CN.3/261) of the BTN with the United Nations Standard International Trade Classification (SITC).^{11/} For the reasons mentioned, among others, the Working Group considered it appropriate to recommend that the Latin American countries should join the other countries of the world that had already adopted the BTN.

36. In addition, the Working Group drafted definitions of basic customs terms and suggested to the ECLA secretariat that it should undertake a number of technical studies, in particular studies aimed at promoting the co-ordination and simplification of customs procedures and documents as well as of shipping formalities and documents. The Group also dealt with the notions of "duties and charges" and "duties and charges in force", for the purpose of applying the Montevideo Treaty.

V. WORK PERFORMED BY THE ECLA SECRETARIAT

1. Work completed

37. In compliance with the relevant resolutions of the Commission and the Trade Committee, the secretariat proceeded with its technical work on the regional and sub-regional aspects of Latin American trade expansion and economic integration.

38. In view of the new conditions created by the conclusion of the Montevideo Treaty and the action taken by some Central American countries to sign the General Treaty on Central American Economic Integration, it was felt that

^{10/} See La uniformación o coordinación de ciertos aspectos de los sistemas aduaneros de los países latinoamericanos (E/CN.12/C.1/WG.3/2)

^{11/} See El Consejo de Cooperación Aduanera (p.13), background document submitted to the Working Group at its above-mentioned session.

the meeting of experts, provided for in one of the resolutions and whose function was to continue the studies on the establishment of the Latin American common market, should not be convened for the time being. Moreover, several Governments expressed to the secretariat their opinion that the meeting should be postponed because their experts were still actively engaged in work related to the negotiation of the above-mentioned treaties. 39. Among the secretariat's activities - the scope and nature of which are indicated in the text of the present report - are the following:

(a) Preparation of studies related to the conclusion of the multilateral instruments recently agreed upon and technical advice to the Governments concerned during the meetings held for that purpose.

(b) Collection of data on the European economic integration movement, both under the terms of ECLA resolution 121 (VII) and in order to make available to Latin American Governments data which would help them solve technical problems arising out of the conclusions of the multilateral agreements signed recently. In this connection, the secretariat is forging ahead with its work of analysing the effects of these agreements on the treaties now in force with third countries. The purpose of the study is to provide data on which to base the necessary amendments in these treaties and in the light of these amendments, to examine the possibilities for constructive co-operation with respect to trade with third countries or groups of countries.

(c) Establishment of a working relationship in technical matters with the European Economic Community and the European Free-Trade Association.

(d) Holding of the third consultative meeting on trade policy between Colombia, Ecuador and Venezuela, preceded by preparation of the relevant technical studies. The purpose of the meeting was said to be ^{12/} to carry out the official consultations which the three Governments had decided to hold before taking a position on the present movement towards multilateral economic co-operation in Latin America.

^{12/} See paragraphs 26 to 29 *supra* and document E/CN.12/555 (footnote 7), the annexes of which contain the technical studies prepared by the secretariat for the meeting.

40. In article 44 of the Montevideo Treaty and in its Protocol No. 3, the Governments of the signatory States requested the ECLA secretariat to assist the organs of the Latin American Free-Trade Association with advice on technical matters. This advice is now being given and includes the work of ECLA experts in Montevideo and the studies on specific subjects being undertaken at ECLA headquarters in Santiago. The secretariat is seeking, in an advisory capacity, to ensure the best possible use by the organs of the Montevideo Treaty of its general studies on Latin America and, within the same general framework, to focus attention on the specific or sub-regional studies of direct interest to those organs.

41. The secretariat's advisory activities in connection with the implementation of the Montevideo Treaty included the following:

(a) Participation in the work of the Provisional Committee of the Montevideo Treaty relating to the submission and consideration of that instrument by the Contracting Parties of GATT. The advice given by the secretariat covered a number of aspects.

(b) Organization, at the request of the Governments signatories of the Montevideo Treaty, of the meeting of the Central Banks, held in that city in January 1960, and preparation of the relevant documents. Work is now proceeding on studies for a proposed second meeting to be held in 1961.

(c) Compilation of data on imports by States members of the Treaty, chiefly for the purpose of making available, during the negotiations on tariffs, adequately detailed data on the nature and volume, item by item, of manufactured goods imported from the rest of the world.

(d) Advice to the meeting of transport experts, organized by the Provisional Committee chiefly for the purpose of exchanging and compiling information to serve as a basis for future systematic action in this field. Also considered at this meeting were items relating to the simplification of shipping documents and the establishment, for statistical purposes, of a standard nomenclature for freight and freight rates. Moreover, a preliminary study was made of a possible regional technical assistance programme on administrative, operational and labour régimes for harbours.

/(e) Co-operation

(c) Co-operation which might be offered to the Provisional Committee of the Montevideo Treaty on the establishment and technical organization of its statistical services.

2. Special programmes

42. Among the secretariat's more significant activities in the matter of regional economic integration are the specific study programmes on financial customs, industrial and agricultural activities.

43. The secretariat is concentrating on financial studies aimed at providing the possible broad outlines of an inter-Latin American credit policy for the financing of exports of manufactured and capital goods. It should be pointed out that the countries which are traditional exporters of machinery and equipment have special facilities for insuring and financing exports designed to facilitate their sale. No progress has been made in Latin America in this respect. There have been cases of bids being offered by Latin American enterprises to supply equipment on competitive terms as regards quality and price which had to be turned down by the prospective purchaser because the period for payment was shorter than those allowed by traditional suppliers. The study being prepared by the secretariat will consider the experience of other areas and the possible adaptation of the respective systems to Latin American institutions and sources of finance.

44. With regard to customs questions, work is proceeding on a bilingual Portuguese-Spanish version of the Brussels Tariff Nomenclature in order to facilitate inter-Latin American comparisons and, in due course, tariff negotiations. A draft sub-division of the items in the Brussels Nomenclature is also being prepared. Attention should also be called to the study in progress on drawback regulations and other special régimes governing temporary admissions, free zone, ports and warehousing, as well as on the co-ordination and simplification of customs procedures and documents among Latin American countries, all of which will be useful for the process of regional economic integration. Valuable co-operation is being received in this work from the Customs Co-operation Council in Brussels.

45. The industrial studies being carried out by the secretariat, which are more closely linked to the establishment of the common market, relate to the inventory of manufacturing industries in Latin America. Also useful are

/the detailed

the detailed sectoral studies on railway equipment, the chemical, textile and other industries. These studies will provide very useful information for negotiations aimed at liberalizing trade in manufactured goods.

46. It is generally recognized that some branches of agricultural activity cannot be easily incorporated into regional integration programmes because of differences in productivity among the countries concerned, protectionist measures, autarkic traditions and other factors. Therefore, taking into account the motives of concern previously expressed,^{13/} the ECLA secretariat is approaching the study of these problems from the point of view of the possible repercussions of the common market on agricultural production and trade and its gradual adaptation to the requirements of economic integration.^{14/}

^{13/} See paragraph 10 supra

^{14/} A preliminary report, based on this work undertaken through the Joint ECLA/FAO Division, was submitted a few months ago to the FAO Sixth Regional Conference for Latin America (Mexico, August 1960). (See "The role of agriculture in Latin American common market and free-trade area arrangements (E/CN.12/531).")

