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PAYMENTS AND THE REGIONAL MARKET IN
INTER-LATIN-AMERICAN TRADE

Analysis and recommendations

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COVERING LETTER

Santiago, 13 August 1956

Sir,

We have the honour to submit to you the report we have drafted at the request of the Economic Commission for Latin America, containing the analyses and recommendations which we wish to present, in our capacity as ad hoc consultants, on current trade and payments problems among those countries of the Southern Zone which carry on the heaviest reciprocal trade, and on the development of a common regional market in Latin America.

This paper is based on document E/CN.12/C.1/3, which sums up the findings of a survey carried out by us in collaboration with Mr. Esteban Ivovich, Chief of ECLA's Inter-Latin-American Trade division, in Argentina, Bolivia, Brazil, Chile, Paraguay, Peru and Uruguay, with a view to preparing the necessary background documents for the first session of the Trade Committee created under the terms of resolution 101 (VI).

The report attempts to systematize and rationalize the data and points of view collected during the survey in question. It also contains certain recommendations - for which we assume personal responsibility - as to what seem to us the best methods of tackling the problems under consideration.

We have pleasure in placing on record our gratitude to Mr. Esteban Ivovich, whose knowledge and experience of trade and payments problems in Latin America have made his co-operation of the greatest value in the preparation of the present document.

We should also like to take this opportunity of expressing our appreciation of the honour you have conferred on us in singling us out for this task, as well as our thanks for all the help given us by the secretariat.

Yours obediently,

(signed) Eusebio Campos

(signed) José Garrido Torres

Mr. Raul Prebisch
Executive Secretary of the Economic
Commission for Latin America
Santiago, Chile

I

THE PAYMENTS PROBLEM

Document E/CN.12/C.1/3 summarizes the findings of the survey carried out by the group of ECLA experts in the countries they visited, ^{1/} namely, those among which the intra-regional trade links are strongest. It now remains to deduce those guiding principles and suggestions which appear to be in the best interests of inter-Latin American commerce, particularly in the Southern Zone of the region. The following pages contain an analysis of the payments problem, the question of the regional market being dealt with in Part II of the present report.

1. General trends towards multilateralism

Field studies of the most recent exchange reforms have revealed a trend towards a multilateral payments system, with a view to possible convertibility. In this connexion, most of the Southern countries show a leaning towards competitive foreign trade based on parity with the convertible dollar.

On the other hand, there still exist in South America those motives which gave rise to the practice of bilateral agreements, i.e. shortage of means of external payment and the wish to encourage reciprocal trade on an ever-increasing scale. Under this latter head must be included the desire to foster exports of industrial products, especially to the region itself; this is attributable to the inability of each individual country's market to absorb the output of local industries, many of which have idle installed capacity.

In the opinion of the persons interviewed, these circumstances would seem to suggest that inter-Latin-American bilateral agreements should remain in force as useful instruments of exchange and trade policy, although the need to revise or replace them in order to meet the needs of the current situation is also recognized.

1/ Argentina, Bolivia, Brazil, Chile, Paraguay, Peru and Uruguay.

a) Co-ordinated transition

Nevertheless, the task to be faced seems extremely complex. Apparently a compromise must be sought whereby the existing watertight bilateralism could be gradually replaced by a progressive multilateralism in intra-regional trade. It is thought that such a solution could be put into effect if the Latin American countries would agree to adopt certain basic principles and uniform technical standards tending to encourage regional trade by means of a steady increase in the transferability of payments, along lines compatible with the monetary and exchange reforms already under way. Among the principles referred to, which are gaining ground in the countries visited - as was emphasized by the survey - would be included parity or near parity with the convertible dollar, competitive prices, non-discriminatory exchange treatment, progressive establishment of equilibrium in the bilateral trade channels, granting of reciprocal credits, levels of intra-regional compensation and transferability of residual balances outside Latin America. As to the technical standards on the basis of which agreements would be remodelled, there is a more or less widespread tendency to advocate greater uniformity in the determination of margins of credit, official base values for tariff purposes, the position of invisible items, re-exports, accounting, etc.

There is a consensus of opinion that the basic principle which must be respected is that of decisively expanding trade between any two countries, in their own direct mutual interests and to the indirect benefit of the Latin American countries in general. Given the shortage of hard currency, in such promotion of trade priority would have to be accorded to the correction of existent disequilibria. As matters stand at present, the composition of exports and imports to and from neighbouring countries leads to a situation wherein some are persistently debtors and others permanently creditors. While it is true that this position makes the establishment of a regional clearing system difficult, it should also emphasize the desirability of a common and united effort to encourage gradual progress towards a more complementary integration

/of trade,

of trade, dictated by considerations of dynamic efficacy, rather than the adoption of measures which, far from following the path outlined, are designed only to intensify trade in convertible currencies, and merely serve to aggravate cross-payment difficulties within the region.

Plenty of opinions were expressed to the effect that this type of "isolationism" on the part of the Latin American countries would imply a subsidiary contribution to the integration of other regions, and would, in the long run, inevitably redound to the detriment of their own interests and those of the region to which they belong.

b) Transferability

An examination of the various situations in the different countries visited is not conducive, by its very complexity, to the devising of facile solutions. Nevertheless, merely as a basis for discussion, certain general outlines are suggested for a system which might help towards a joint solution, provided that governments were willing to co-operate in correcting specific trade disequilibria - if not at bilateral, at triangular or multilateral levels - and in removing certain difficulties such as those inherent in the quotation of units of account on the recently-created free markets. There is no doubt that the establishment of a trend towards equilibrium at progressively higher levels will make it easier to work out technical solutions to the other problems.

There is an apparently well-founded hope that a possibility exists of reducing the structural imbalances in intra-regional trade and of solving little by little the problems they represent. Signs of this are already appearing in those countries which are chronically in debt. ^{2/} The trend towards equilibrium could be stimulated to some extent by means of a flexible payments system which would permit of the gradual liquidation of balances in several stages and would thus mean that the need for convertible foreign exchange was less acute. The highest or lowest limits to which the equalization of payments

^{2/} See E/CN.12/C.1/3.

could be carried would not necessarily be attained within periods of a year. ^{3/} A trial could be made by means of a mechanism based on swing credits granted through the Central Banks, on conditions and within time limits agreed upon beforehand, so as to ensure their coverage in goods. The balances in excess of these credits would be subjected, at the end of the year, to as much regional compensation as possible. Any remaining balances not compensatable within the region would be payable, as the case might be, in United States dollars, in sterling or in other extra-regional currencies of limited convertibility. ^{4/} For this purpose, it might also be possible up to a point to have recourse to the monetary areas established by certain South American countries with others in Europe, namely, the Hague Club and the Paris Club. ^{5/} The risk of inflation implicit in the expansion of the credits would be counteracted by the measures aimed at stabilizing the balance of trade in each separate channel as well as in the region as a whole; moreover, it would be limited by the amount of credit stipulated. Presumably this would not be large enough to affect the economic stability of the supplier countries.

The combined objectives of such a system would be the expansion of regional trade and progressive convertibility. Duly adapted so as to conform with the new trend, inter-Latin-American bilateral agreements would become useful instruments of this twofold policy. Following the example of other regions of the world, a sudden and disturbing

^{3/} The trend towards stabilization observable in the years 1954 and 1955 has been upset during 1956 by the appearance of disequilibrium in trade between Argentina and Chile, brought about by the decrease in the former's exportable balances and by Chile's purchases of agricultural surpluses.

^{4/} The need to resort to these currencies would be limited, according to the picture presented by intra-regional trade during the years 1954 and 1955, which can be studied in E/CN.12/C.1/3.

^{5/} See also E/CN.12/C.1/3 with reference to both these Clubs.

modification of the trade flows in Latin America would be avoided. Thus an initial move would be made along practical lines towards solving the complex problem of a steadily expanding multilateralism. Time would have to be allowed for the trade flows in question to adapt themselves gradually to the changing circumstances, and for the discovery of the methods most consistent with the principles of competition and specialization.

Clearly, a hard task lies ahead. However, though the first steps may not be very ambitious, the use of the transfer mechanism should help to clear the way.

This type of general solution - based on concepts and desires evinced, above all, in the countries which account for a large share of Latin American trade and where the most serious convertibility problems exist - might have the double advantage of dealing with current difficulties and of establishing the bases of a possible system of regional payments, which, in its turn, should greatly further the aim of trading at progressively higher levels, not merely within Latin America but with the rest of the world.

It is not anticipated that hard currency will prove essential for the financing of trade. Nor, apparently, is it considered either possible or advisable to select a single currency even for the liquidation of balances. It is thought that the enforced use of a particular currency might only aggravate the problem unnecessarily, since one of the advantages of bilateral payments agreements between Latin American countries is precisely the avoidance of the compulsory use of foreign exchange which is in short supply, and, what is more, is essential for purchasing the capital goods, fuels and raw materials that their economic development requires on an ever-increasing scale.

As matters now stand, the effort to secure monetary stabilization will leave less and less opportunity of using bilateral trade and payments agreements, within Latin America, to guarantee surcharges, to facilitate exchange manoeuvres, to negotiate barter arrangements or to impose the acceptance of products under non-competitive conditions. Apart

conditions. Apart from the application of certain special measures suggested during the survey, the aim would be an increase in payments facilities, which, instead of discouraging bilateral and regional trade, would safeguard it at the level already achieved and promote its future expansion. Presumably, therefore, as a natural result of stricter adherence to the principles of parity, competitive prices and non-discrimination, the exchange rates applied under the agreements will approximate more closely to those prevailing for trade with other regions.

c) The agreements and the promotion of trade

The second object of inter-Latin-American agreements, in their new phase - that is, the more effective direction of trade into intra-regional channels - could be achieved by mainly administrative measures, within the reach of the various countries, which are being applied already or whose adoption is recommended. They would replace exchange controls until a satisfactory tariff policy became feasible, and would include import licences and prior deposits, regulation of the exchange supply for auction, prohibitions, etc. Further, measures of this and other kinds, such as purchases effected by governments or official institutes, either for State industrial enterprises or in the public interest, would help to promote a possible balance of trade. ^{6/}

^{6/} As an example, it is worth while mentioning here one of the possibilities indicated in the course of the survey. Exports of railway material manufactured in Brazil might further the aim of balancing accounts between that country and Argentina, through a programme of short and medium-term purchases of such material whereby Argentina would renew the equipment concerned. It was also pointed out that certain important public works in some countries, e.g. drinking water and main drainage in large towns in Paraguay, could also contribute to the expansion of inter-Latin-American trade if the necessary materials, instead of being imported from other regions, were bought from those Latin American sources where there was idle installed capacity for the manufacture of the appropriate items, as in the case of tubes in Argentina and Brazil, to follow up the Paraguayan example. It was taken into account that, when such works are financed by foreign credit, it is usually on the understanding that the necessary materials will be imported from the country financing the undertaking. Nevertheless, it was suggested that it might not be impossible to arrange for part of the credits to be used to buy materials in Latin America itself. The dynamic effect of these credits on the economies of the countries concerned would thus be intensified.

/There is

There is a general conviction that such instruments could not at present be completely discarded, and that they are likely to exert an expansive rather than a restrictive influence on trade, both within the region and between the Latin American countries and the rest of the world.

For the smooth running of the system, it would be indispensable that trade and payments problems should not continue to be dealt with on a purely bilateral basis. The establishment of technical principles and standards referred to earlier would have to be simultaneously considered and accepted by the different countries of the region. This once achieved, probably by means of a joint agreement, and possibly, as was suggested, within the Trade Committee itself, the next step would be the negotiation of bilateral agreements, with simultaneous triangular and multilateral consultations aiming at the settlement of balances. A technique could be employed similar to that of the GATT, which has proved successful, and advantage could be taken of the experience acquired by the Trade Development Committee of the Economic Commission for Europe.

d) Expedients for the settlement of balances

The genuine advantages of this method of negotiation would be further reinforced by another expedient, and one on which there was almost entire agreement among the authorities consulted. It may also be recalled that the idea in question had already been put forward in competent Latin American circles. It consists in the setting-up of a simple mechanism for the maintenance of permanent contact among the Central Banks of contracting parties to the agreements, in order that, apart from other services, each should receive from the rest, at regular - perhaps monthly - intervals, a statement of their accounts and data on their balances. Such a step would be most useful, since it would remedy the present lack of any means whereby one country can ascertain another's balances in its clearing accounts with third nations. It might also serve to facilitate the settlement of balances within the region, if the mechanism established were to include the reception and distribution of information, proposals and

/counter-proposals

counter-proposals among the various countries, in accordance with standards previously laid down in the bilateral agreements and with the conditions as to exchange rates and other requisites stipulated by the creditor country. Among its other functions, the mechanism referred to would permit closer and fuller co-operation among the Latin American Central Banks, thus creating a tradition virtually non-existent hitherto.

Once the setting-up of this mechanism had been agreed upon, and the method of negotiating and periodically and simultaneously revising bilateral trade and payments agreements had been determined, the technical bases would have been jointly established on which to build up a regional system adapted to existing conditions, if only on empirical lines as yet. From such a system might perhaps develop a payments union and a freer and more complementary trade zone. This would be no more than a modest and tentative beginning, but there is no doubt that it would represent a step towards the gradual attainment of an essential goal -- the progressive co-ordination of the monetary, exchange and trade policies of the Latin American countries. Only thus could advantageous results be hoped for on a regional and world scale.

e) Procedure to be followed

With due regard to the ideas expressed at its first session, the Trade Committee might convene -- if the Governments so decided -- a special initial meeting of Latin American countries who had agreements to revise or negotiate, and might at the same time set up a small working party. To this group, which would be composed of exchange experts, could be entrusted the task of sketching out a standard draft to be used at the special meeting as a basis for the remodelling of the agreements concerned with the object of securing the maximum of uniformity and flexibility. Further, in view of the difficult situation of bilateral trade, if there were any possibility that some of the delegations to the meeting had been granted sufficiently wide powers and had enough statistical material at their disposal, the ECLA Secretariat, in co-operation with the exchange experts mentioned, might anticipate certain aspects of this task, so as to secure the adoption of certa

/basic principles,

basic principles, where possible at the outset of the meeting, or, to begin with, by those countries intending to negotiate agreements. If this procedure were followed, in accordance with the example set at the second meeting of the United Nations Trade and Employment Conference held at Geneva in 1947, when the first tariff concessions were negotiated within the GATT, there would be a chance of making progress over the short term. To this end, the first session of the Trade Committee might perhaps be divided into two parts. One would be devoted to general problems and principles and the other to the negotiation of the agreements. In any case, whatever the procedures adopted, competent Latin American circles agree that the development of inter-Latin-American trade calls for close collaboration among a number of countries, and for the devotion of attention both to general principles and to ways of solving the numerous practical problems which impede its full evolution.

2. Recommendations

1) A considerable number of the trade and payments agreements signed between Latin American countries are incompatible with the new trends evident in the monetary trade and exchange policies of the countries concerned, and this fact has a disturbing influence on intra-regional trade. Thus it appears necessary to revise these instruments so as to adapt them to the tendencies indicated and give new life to trade within the region.

It has not so far been possible to make satisfactory progress towards this end by means of purely bilateral agreements; for this reason the time would now seem to be ripe for tackling certain basic difficulties by recourse to a more effective type of co-operation than isolated efforts on the part of pairs of countries.

2) The technique of bilateral negotiation within the framework of multilateral meetings would enable a gradual solution to be sought for the common problem of the settlement of certain intra-regional balances as well as for that of the transferability of given surpluses in such balances to other currency areas.

3) The procedure outlined in points 1) and 2) would represent a first step towards increasing co-ordination of monetary, trade and exchange policies. This appears indispensable, since otherwise no lasting results could be
/achieved. If

achieved.

If sufficient Government support were forthcoming, the practical action deriving from the three foregoing conclusions might perhaps take the following form at the meeting of the Trade Committee:

- a) Consideration of the principles and standards to be followed in inter-Latin-American trade and payments agreements;
- b) Simultaneous revision of bilateral agreements through multilateral consultations among those Governments which, at the time of the Trade Committee meeting, are prepared to conduct the appropriate negotiations; or, alternatively, determination of a date for such consultations soon after the end of the conference. In order to facilitate revision, a working party made up of exchange experts and members of the ECLA secretariat would draw up a standard draft agreement; and
- c) the establishment of machinery to promote and facilitate the transferability of balances.

II

THE REGIONAL MARKET

1. Its importance for the industrial development of Latin America

The effect produced on inter-Latin-American trade in certain intermediate and manufactured goods by the exchange reforms carried out in some of the Latin American countries is giving rise to more or less universal concern. Reliance is placed on these reforms to promote exports to convertible currency markets - especially in those lines of basic domestic production where specialization creates favourable conditions of productivity - but certain doubt can be observed as to the competitive capacity of most of the manufactured products currently traded among Latin American countries. In a word, it is feared that the ground gained in this field may be lost. ^{7/}

a) Latin American manufactures in intra-regional trade

Stimulated as it was by the temporary disappearance of supplies from Europe, Japan and, to some extent, the United States, during the Second World War, intra-regional trade in manufactured goods, despite the reduction experienced after the re-opening of the old channels, still survives in some measure, mainly thanks to the bilateral agreements. Such manufactures are for the most part the products of new industries, where productivity is often lower than in their extra-regional counter-parts, which makes it difficult for them to gain a foothold in the markets. In effect, apart from price considerations the advertising and prestige of the traditional trademarks or suppliers militate against their acceptance; so do the credit assistance and other facilities which overseas exporters are afforded by the organization of trade in other regions.

^{7/} Statistical research specially carried out for the Study of Inter-Latin-American Trade, (E/CN.12/C.369)(see table I-a), shows that intra-regional trade in semi-finished products of mineral origin and in manufactured goods other than foodstuffs represented only about 2 per cent of total inter-Latin-American trade in pre-war days (1934-38). By 1952-53 it had already risen to almost 12 per cent.

In spite of these obstacles, which are not under-estimated, renewed efforts are clearly being made in the industrialized countries of South America to export manufactured goods, principally to other markets within the region, where it is thought that the natural outlet for their surpluses may be found. Thus Argentina and Chile have accorded free-market exchange treatment to their manufactured goods. It should, however, be noted that in the latter country certain articles were in effect benefiting by higher exchange rates than that at present in force on the free market, as a result of the barter system. Also with a view to encouraging exports of manufactured goods, Brazil has increased the existing bonuses in their favour.^{8/} Uruguay on its part grants special exchange rates to facilitate the sale of such products. In general, in the countries mentioned the industrialists themselves are forming organizations to collaborate with official efforts.^{9/}

The success of such efforts is of course conditioned by both circumstantial and structural factors. The adverse effects of the former tend to be increasingly offset as anti-inflationary policy and the abolition of the system of over-valued exchange rates for exports manage to stabilize domestic production costs and facilitate the elimination of surcharges on the price of exported goods. The latter are more difficult to counteract, as in many cases the solution is not to be found within the boundaries of the individual countries concerned. That is, if specific industries are to be able to compete, they must be guaranteed larger markets. The volume of domestic demand does not suffice to enable certain industries to approach optimum production. In many lines, moreover, there is a marked tendency for industrial development to run parallel in different countries and for idle manufacturing capacity to exist as a consequence, though these two circumstances do not always represent cause and effect, and the problem of idle capacity is distinctly greater in the smaller countries.

8/ Instruction N° 131 issued by SUMOC on 19 May 1956.

9/ In Brazil, the Federação das Industrias do Estado de São Paulo has set up a Department of Foreign Trade to this end. In Argentina, the Unión Industrial plans, in its turn, to establish an Export Commission.

Both characteristics are thrown into special relief by the spectacle of the veritable cross-fire of offer and counter-offer, deriving, inter alia, from mutual ignorance of prevailing production conditions in the different countries.

Again, attempts to increase intra-regional trade in manufactured goods have been up to a point frustrated by the lack of an appropriate policy pursued in common. Broadly speaking, efforts have been made to encourage exports mainly by means of exchange manoeuvres. But the attitudes adopted towards imports have varied widely. Some countries have usually exempted from licence regulations certain manufactured goods from adjacent countries or from the same geographic area. Sometimes, as in the 1954 agreement between Chile and Argentina, this was done by means of reciprocal concessions in favour of specific commodities. Other countries prefer to apply to Latin American manufactured goods the same prohibitions or restrictions as govern their imports from other parts of the world. There have been cases - and not a few - in which the effects of agreements whereby certain articles that were difficult to export were bartered in European markets for manufactured goods normally subject to import restrictions, have adversely affected the development of the corresponding inter-Latin-American trade. From the above general outline, it is obvious that the lack of a common policy as regards trade in manufactured goods is reflected in an absence of reasonably homogeneous provisions in the bilateral agreements and neutralizes many of the endeavours made from diverse angles to expand inter-Latin-American relations in this field.

Another aspect relates to countries where domestic consumption is very limited. In some there is a considerable number of markedly anti-economic and very highly-protected industries which are beginning to feel the effects of their non-productivity; weekly shifts have been reduced, and - in many instances specifically cited - works have been closed down and equipment exported, with the resultant disemployment. Cases were also adduced in which enterprises are seeking palliatives - so far without success - by using raw materials supplied on a re-export basis by neighbouring countries. These are feared to be the first symptoms of evolution in a direction highly undesirable for the process of industrialization.

/Disequilibrium in

Disequilibrium in the regions's foreign accounts gave rise to an exaggeratedly protectionist policy which has militated against sound industrialization, and which found concrete expression in the practice of replacing imports by domestic production. This meant that encouragement was given to all manufacturing activities which might either apparently or in fact help to lessen the disequilibrium in question. Thus problems were created whose solution will depend only in part, and not principally, on an improvement in the organization of inter-Latin-American trade relations,

b) Industrialization and the balance of payments

A more detailed account must be given of some of the opinions on this point gathered during the survey, particularly those relating to industries set up without regard to the principle of comparative costs, to the availability of natural resources and to the capacity of the domestic market. Their establishment has brought about a transfer of capital and labour from productive to other less productive activities. The high monetary profitability with which these latter were thus artificially endowed has led to a certain distortion of investment, and sometimes to production which is not really essential by contrast with the sacrifices imposed on the basic sectors - transport and energy - whence the familiar "bottlenecks" in economic development have resulted. The somewhat negligent treatment of typical and traditional lines of production, the increase in domestic consumption and the continuous rise in costs - aggravated by the social policy adopted - have tended to discourage exports. This trend, in combination with the inadequate inflow of foreign capital and the deterioration in the terms of trade, was not propitious to an expansion of the capacity to import commensurate with the requirements of the various countries. The inevitable outcome of the limitation of this capacity on the one hand, and on the other the stimulus to the propensity to import provided by income increases and by the inflationary process affecting the majority of Latin American countries, was the stagnation of the investment coefficient, a development which necessarily prevented the acceleration of the rate of growth, given the reflex nature of the economies within which it took place.

/In seeking

In seeking to stabilize their balance of payments by substituting domestic production for imports, some countries seem to have used this means, as already pointed out, in such an indiscriminately horizontal fashion as to run a serious risk of even worse disequilibrium, caused not only by the direct action of "income-effect", but to a considerably greater extent by "price-effect", as a result of the inflationary conditions prevailing in the countries in question. Thus the curious case exists to-day of countries that are obliged to grant more favourable rates of exchange for exports of some of their basic products than for the manufactured goods derived therefrom. It is a vicious circle; the disequilibrium in the balance of payments has led to import replacements which in their turn have helped to accentuate this same disequilibrium, because they were undertaken without careful prior study of their economic possibilities. Several countries are now in the paradoxical situation of having to restrict or prohibit imports of capital goods. This is apparently largely attributable to the steadily-increasing rigidity of imports, demand for which tends to increase at a proportionately faster rate than the national gross product. This rigidity, most noticeable in the case of raw materials and fuels, induces certain countries to waive such restrictions and prohibitions when capital goods are brought in as a result of foreign investment; and the modernization of equipment in already existing manufacturing concerns has suffered accordingly. Domestic industries have thus found themselves at a disadvantage vis-a-vis new activities financed with foreign capital. Lastly, in some countries the capacity to import has reached such critical levels as to help to spread the conviction that a new path must be followed towards balance-of-payments equilibrium, preferably that of expanding exports. This belief has proved a decisive factor in the recent reforms.^{10/}

^{10/} In Brazil, where no exchange reform was introduced - as in other Latin American countries - the importance of exports is declining in relation to domestic production, whereas that of imports is increasing. (See table 1.) A proposal put forward by the Conselho Nacional de Economia recently led to the organization of a commission of experts from the civil service and from producers' associations, to study this problem and suggest measures of trade policy whereby exports might be expanded.

c) Revision of national industrialization programmes

During the survey identical suggestions were put forward in this connexion in various countries, and are summed up below. In the area visited almost universal interest was displayed in economic stabilization programmes, for which the encouragement of exports is indispensable. In the industrial sector a trend towards specialization for export is appearing. The recognition of this need likewise implies awareness that concerted multilateral action might greatly help to meet it, since it is not bounded by the frontiers of each individual country. Consequently, the problem of the reform of industrialization within this region - beginning, perhaps, with the group of countries which industrial progress is most intensive - must be envisaged in terms of wider or more complementary markets, and in a spirit of co-operation reflected in the endeavour to co-ordinate national policies, along the lines exemplified in Europe. This idea is already very widely accepted.

The progressive creation of a large Latin American market would be the on way of solving, by means of complementarity, the improvement of productivity and the consequent increase in consumption, the existing binomial of parallel industries and idle installed capacity. In contrast with what frequently occurs at present, especially in the countries with the smallest markets, consumers would derive great benefits from a genuinely economic industrialization. The success of the policy of replacing certain imports by domestic production is basically dependent on the possibility of offering them wider regional markets. If no united action in this direction were to prove feasible, and if each country were to continue to pursue its industrialization policy in the same isolation as at present, it is to be feared that the heterogeneous courses followed by the different countries, taking the form of unco-ordinated measures which sometimes defeated their own ends, might sow the seeds of future difficulties. Therefore, some of the opinions expressed to the effect that the attempt to initiate the necessary co-operation must not be postponed, envisage such collaboration within the framework of a twofold programme, comprising long-term and short-term solutions and based on the ideas summed up below.

Table 1
BRAZIL: GROWTH OF PRODUCTION IN RELATION TO FOREIGN
TRADE, 1939-1954

(Billions of cruzeiros at 1952 prices)

Year	Domestic production	Exports		Imports		Average per cent- ages	
		Absolute values	Percentage of domestic production	Absolute values	Percentage of domestic production	Ex- ports/ produc- tion	Impo- rta- tion
1939	200.3	39.4	19.7	23.6	11.8)		
1940	200.3	32.5	16.2	20.8	10.3)		
1941	210.0	25.7	12.2	21.4	10.2)	<u>15.5</u>	<u>10.6</u>
1942	203.5	28.1	13.8	16.1	7.9)		
1943	209.0	28.9	13.8	19.2	9.2)		
1944	219.4	31.7	14.4	23.4	10.7)		
1945	234.6	34.1	14.5	23.6	10.1)	<u>14.7</u>	<u>10.7</u>
1946	257.7	42.2	16.4	26.7	10.4)		
1947	278.3	39.8	14.3	40.9	14.6)		
1948	294.1	40.1	13.6	36.9	12.5)	<u>12.3</u>	<u>13.7</u>
1949	302.1	36.1	11.9	39.3	13.0)		
1950	324.1	31.7	9.8	32.1	13.3)		
1951	346.5	34.9	10.1	61.3	17.7)		
1952	360.9	26.1	7.2	55.0	15.2)		
1953	376.1	30.9	8.2	44.8	11.9)	<u>8.1</u>	<u>14.5</u>
1954	409.9	29.0	7.1	55.0	13.4)		

Source: Joint BNDE/SUMOC/CNE/CTEF/FGV Group, Situação Atual e Perspectivas Imediatas da Economia Brasileira, Rio de Janeiro, January 1956, p.35.

/Thanks to

Thanks to the longstanding moral and political traditions of the American continent, the collaboration outlined, instead of alienating the several countries would bring them into closer economic contact, and would at the same time constitute the point of departure for a regional economic co-operation programme. In this context, and in present circumstances, it would seem advisable to begin by taking the same sort of action as that already indicated in the case of payments and trade problems.^{11/} Such measures might represent the first great stride towards the closer economic integration of Latin America.

^{11/} See Part I of the present report, section 1.

2. The problem of the common market

a) Evolution of the idea

Concern for the need to broaden domestic markets is no new development in the Latin American countries. Of the various endeavours to which it has given rise, virtually not one has proved successful. In both the Northern and Southern Zones of South America steps were taken in this direction between two and sometimes more countries, but for various reasons the desired goal was never attained. At the present moment the Central American republics are trying to build up a single market as a solution to their economic problems and as a means of achieving a degree of development and prosperity beyond the reach of their individual territories, populations and resources.

A number of factors are already helping to create an atmosphere conducive to the realistic reconsideration, in a proper perspective, of the usefulness of finding over-all solutions to problems common to the Latin American countries and not confined to the industrial field alone. These factors include the greater economic maturity attained, the better understanding of reciprocal problems, the mutual inter-dependence of the Latin American countries as regards the fulfilment of their aspirations, certain progress already achieved or under way with respect to transport facilities, including overland communications, and, above all, the fact that exactly the same difficulties have arisen at exactly the same time in industrial, foreign trade and payments sectors, especially in South America.

At the same time, growing interest is being aroused in Latin America by the progress of economic integration in other parts of the world, as, for example, in Western Europe, and between this area and its countries' African possessions, to cite only two outstanding instances. Furthermore, as the survey showed, concern is felt as to the increasing gap between the more highly-industrialized and the under-developed countries - a gap which tends to be still further widened by the disparity between their technological resources and availabilities of capital and skilled labour.

Attention is also drawn to the remodelling of the world economy, a process which began in the war of 1914 - 1918, gathered new impetus during the 'thirties and ended by taking definite shape during and after the

Second World War, radically altering the composition of international trade flows. The fear - perpetuated by the insecurity of peace - of being cut off from the centres supplying manufactured goods; the belief that the prices of the region's raw materials are apt to be more unstable than those of manufactured goods, and that the terms of trade may become unfavourable in the long run; the desire to raise the standard of living of their peoples; all these considerations have joined to impel Latin American countries along the path of industrialization. Such industrialization would diversify their economies, and, if achieved, would secure the desired stability combined with prosperity. These principles of economic policy have been further strengthened of late, in view of the encouragement of lines of production in Africa parallel to those characteristic of Latin America, and the increased technological progress in the United States and Europe which tends to produce synthetic substitutes for many of the traditional Latin American exports. ^{12/} Another contributory factor has been the fear of the depressive

^{12/} Relevant in this context are some of the findings of the GATT report, International Trade 1955, Geneva, May 1956. Although the value of world exports attained record levels in 1955, the relative importance of exports from non-industrialized regions continued to decline. (See p. 3.) There was a sharp drop in the volume of raw materials purchased from such regions by the industrial centres, partly on account of the expansion of similar production lines within their own territories. (See pp. 6-11.) Furthermore, the production of substitutes - synthetic rayon, aluminium, plastics, fibres, rubber and detergents - increased in the aggregate twice as fast as the output of manufactured products. Since industrial areas depend for their supplies of raw materials of natural origin on regions that are not industrialized, the continued replacement of such raw materials by artificial substitutes is bound to have a profound effect on the exports of the countries which produce them. It is estimated that import requirements for industrial regions in 1955 would have been 40 per cent higher than they actually were, if the substitutes referred to had not been manufactured. Finally, the report puts forward this further conclusion. If the production of synthetic substitutes continues to increase at the same rate as in recent years, the improvement in the terms of trade for the non-industrial areas will rapidly disappear, while at the same time their income from exports will decrease in absolute terms. (See pp. 11-14.)

influence that may be exerted on world market prices for products competing with those of United States origin, by the latter country's policy of subsidies for agriculture.

Nevertheless, the results so far obtained, besides perhaps falling at national level below what might reasonably have been expected within the time that has elapsed, have also led to situations that have involved certain readjustments which might direct the future course of the desired policy of economic union.

As already pointed out, ^{13/} industrialization, because it has been confined within the limits of each country's domestic market, instead of bringing about greater diversification, has produced no new exports and has actually discouraged others by competing for the factors of production, thus tending, to a certain extent, to concentrate Latin American exports within a smaller number of goods, highly vulnerable to fluctuations in the terms of trade. Far from achieving the distribution of exports over a wider range of markets and products, trade - especially within the region - is moving in the opposite direction, and this shows signs of being a long-term trend. Certain raw materials of secondary value are playing a lesser part in trade at the very time when it would be both possible and desirable for them to help to augment it. Foreign trade confined to a few lines and countries, in which the United States and Europe are of paramount importance and the share of the region itself is small, does not offer the most hopeful prospect for the industrialization of Latin America.

Nevertheless, in spite of the mistakes that have been made, it is thought in the most competent circles that on balance industrialization shows positive results in conformity with the best interests of Latin America, whether from the standpoint of individual countries or from that of the region as a whole. It is the lines along which it has been effected that have not been satisfactorily adapted to the march of events. Such

^{13/} See, for example, the Estudio sobre la Unión Iberoamericana de Pagos, Instituto Iberoamericano de Cooperación Económica, Oficina Bancaria Interamericana, Madrid 1955, p. 100, and the Study of the Prospects of Inter-Latin-American Trade (E/CN.12/304/Rev.2), United Nations publication, Sales N°: 1953.II.G.4, p. 5.

adjustments and adaptations will depend, in the final analysis, on motives and incentives that will have to be found in the regional market. Consequently, opinion in the circles concerned advocates the simultaneous development of domestic industry in the Latin American countries in two directions, i.e., horizontally and geographically through the regional market, and along the vertical line of the domestic market, determined by the growth of real per capita income. The former would need only a conscious effort based on solidarity to become a reality in the course of time.

b) The trend towards integration

Amongst those who believe in the idea of the regional market ^{14/} there is certainly no sign of a "regionalistic" concept in the exclusive sense of the word. On the contrary, it is considered that the economic development of Latin America might be considerably stimulated by an intensive expansion of its trade with other economic areas. Furthermore, the idea of a regional market ^{14/} would reflect a trend which in these days is making itself felt throughout the whole world. The world economy seems to be developing in the direction of the organization of large economically-integrated areas, ^{15/} and no longer in terms of single countries. This does not necessarily imply that international economic relations must be conducted between large unified blocks; the flow of capital and trade from country to country will have to continue. It means that by some measure of identification of their reciprocal interests, the different countries would seek the natural development of their own markets in more or less adjacent territories, thus increasing their economic stability by reducing their present excessive dependence on distant commercial centres. This would be the beginning of a

^{14/} In this document the term "regional market" is understood to mean the common trade zone which might be opened up by agreements between more than two countries for specific goods produced by the contracting parties. The agreements would be so drafted as to leave room for the possibility that sooner or later other countries in the region might accede to them. For purposes of this section of the report, the term is used with special reference to South America.

^{15/} Understood as organic territorial units.

new phase, that of regional inter-dependence, in which the old free-trade binomial - the individual and the world market - which had been modified by the introduction of the unit "country", would now be extended to include the element "regional market". In this connexion, the evolution of the world economy would merely be brought into line with political evolution.

In the view of many, in this de facto situation would seem to lie the main reason why certain forms of international action, undertaken since the war, have not produced the results forecast. In effect, the point of departure was the assumption that world trade would shortly resume its classic patterns. And, while subsequent events disproved this theory, regional groups emerged of a kind unforeseen in post-war programmes. Since the economic integration of Latin America would arise from the same cause, a number of opinions have been expressed to the effect that the bases of these international forms of action should be revised to some extent, stress perhaps being laid on the regional aspect, but without losing sight of international inter-dependence.

Be this as it may, evolution towards a regional market will come slowly and gradually, beginning in practice with those countries or zones where circumstances are most favourable. In those visited by the group of experts, this is considered the most feasible solution of the problems which the lack of co-ordination in Latin America's economic development has created.

c) Multilateral and competitive system

The point of view no longer seems prevalent in Latin America which advocated seeking a solution to the market problem on a bilateral basis, through agreements between pairs of countries, since this procedure is felt to be too restricted in its scope. Nor is much support given in competent circles to the method of compensation by means of reciprocal market reservations for industries which might, for example, be set up in one country that would have the exclusive right of supplying others, a development which would in most cases depend upon a substantial contribution from public funds. It is feared that, besides promoting the creation of national monopolies (and even according similar privileges to private enterprises), this system would prove in practice little more advantageous than the industries already existing in the various countries, since in many

/instances the

instances the markets would still be small in relation to what is considered desirable. This general concept does not preclude the envisaging of circumstances which might make it advisable - especially in the case of adjacent countries, or frontier zones with possibilities of economic complementarity - to sign market agreements on a reciprocal basis, without excluding other countries in the region which might wish to participate.

However, the idea expressed with most conviction is rather that of instituting a wide area - such as the South American market might gradually become - within which would be established a multilateral and competitive system based on private enterprise. This does not imply failure to recognize the part that must properly be played by the State in guiding the country's economic activities and supplementing private enterprise, especially in the case of under-developed countries. Nor can the need be ruled out for funds provided by foreign Governments or international agencies. Under such conditions the resources available would be large and varied enough for the area's potentialities to be developed, with due regard to the best economic criteria and to the principles of productivity, specialization and competition -, in other words, those appropriate to a regional division of labour.

Although industrial specialization is at times no more than a historical accident, in South America (to limit the analysis to the area visited by the group), much of the informed opinion supports the view that, subject to the principle of reducing costs, the first consideration in the location or transfer of new or existing industries should be the availability of natural resources. Some exceptions must be regarded as admissible, however, since the necessity of raising the standard of living in regions where per capita income is low and the need to correct persistent disequilibria may justify, from the social angle, investment which would otherwise have to be subjected to the order of priority determined by the requirements of a gradual advance along the economic front.

The negotiation of a common market for specific industries between various countries would facilitate this shift of activities, on account of the interest which industrialists would have in transferring their businesses or fusing them with others outside the country, and thus securing

better yields from their investment. Would the country or countries prejudiced thereby, either from the fiscal standpoint or through temporary disemployment, find sufficient compensation in the higher returns on capital exported, and in the lower prices and improved quality of the products concerned when they reached the hands of the general consumer? Would there be possibilities of reciprocity - given the diversity of natural resources - in relation to those products where their comparative advantages were greatest? The answer is thought to be in the affirmative, and it is also felt that the incorporation of large sectors of the population into the monetary economy and the steady rise in over-all purchasing power would have so dynamic an effect on the regional economy that the shifts referred to would really be of little importance.

It is not only the industrialization of the countries forming the trade area that would be benefited by the organization of a competitive regional market. According to the survey, it is believed that this system would also provide an ever-increasing outlet for exports of raw materials and foodstuffs, without the possible disadvantages of sudden price fluctuations and a deterioration in the terms of trade. Industrialization itself would promote a growing regional consumption of each country's basic raw materials, thus turning into a reality the latent complementarity already existing, and averting the negative effects on the terms of trade which might result from the integration of Europe and Africa and the production in the industrialized countries both of synthetic substitutes and of raw materials and subsidized foodstuffs. It would be impossible to avoid such effects by a policy of separate action in each individual Latin American country.

d) Reflections in world trade

It is also argued that such a system might have positive repercussions on the world economy, since it would be a mistake to imagine that the countries of the region would neglect their trade with the rest of the world, or that it would be either desirable or possible to set up a closed system. It is pointed out that nothing of the kind has taken place in the two largest economic areas existing at the present time - the United States and the Soviet Union. On the contrary, both countries constitute markets

of vital importance in world trade, with one difference as regards the former; although its foreign trade does not represent a high percentage in terms of the gross national product, it is of decisive importance for the rest of the world, on account of the indices attained. ^{16/} It is easily conceivable that the flow of capital goods from the United States and Europe towards Latin America might greatly increase at once. Moreover, trade flows among the three areas might also tend to rise in value with the natural growth of income in the Latin American region, thus counterbalancing any possible trend towards a decline in trade between Europe and Latin America - especially as a result of increasing African competition - and its repercussions on the United States market. Further, it seems clear that industrialization built up on regional bases would also progressively improve the capacity of its products to compete in the world market.

e) Opportunities for foreign capital.

It is anticipated that the new prospects which would be opened up for the investment of foreign capital would surpass any hitherto foreseen. In fact, the evolution of the regional market would depend greatly on such capital, which would supplement the capacity to export on the one hand, and on the other, the capacity to import. It would not be surprising if European availabilities were increasingly absorbed by internal and African requirements whence it follows that the most important role would perhaps be played by United States capital.

Presumably the inflow of this latter would increase, since what would seem to have been the principal limiting factors - namely, post-war reconversion and modernization of United States industry, assistance in European reconstruction and the promotion of development in the Southern and Far West areas - are beginning to operate less intensively. Furthermore, the basic obstacles to large-scale investment in Latin America - i.e.,

^{16/} In 1955, United States exports represented 4 per cent of the gross national product and 18.2 per cent of total world exports.

limited markets, 17/ devaluation of currencies, double taxation, discriminatory

17/ The difficulties placed in the way of investment by the small size of most of the Latin American markets have lately been the object of growing attention in the United States on the part of politicians and business men. Thus, for example, in connexion with the recent Panama conference, A.M. Spanel, Chairman of the International Latex Corporation, commenting on the opinions of those who affirm that Latin America needs a large inflow of foreign capital such as was received in an earlier period by the United States, observed: "...It must be remembered that such capital came to a young federation of States among which no economic barriers existed. Being united, not divided, the United States offered vast markets as well as possibilities of expansion, such as the Latin American countries will lack as long as they remain cloistered in twenty separate economic groups, among which there are immense disparities and differences". Emphasizing the advantages of wide markets for investment, he pointed out how in Latin America it is the biggest countries that tend to benefit most by the inflow of United States capital: "More than 90 per cent of this capital has been invested in the three countries with the largest market potentialities, that is, Argentina, Brazil and Mexico. The other seventeen countries are obliged to share the remaining 10 per cent". In support of his contention, he added: "Far greater sums still have been invested in Canada, an industrialized country, not only because of its growing domestic purchasing power, but also on account of the preferential tariffs which encourage Canadian manufactures for export to other members of the British Commonwealth". Contrasting his own country with Latin America - a region he holds to be endowed with vast and diversified latent resources - he declared: "... Unlike the United States, where there are no economic barriers to hinder trade between the 48 States of the Union, Latin America presents the spectacle of twenty States, twenty separate countries, which represent as many frontier barriers, twenty obstacles to trade, which result in limited markets and thus impede the economic development of each one and of all Latin America. By fighting to establish industries within their twenty national territories, Latin Americans are at the same time condemning their factories to supply limited and fractional markets. This means that their industries find themselves tied to a system of low output, small wages and high consumer prices, all of which make up a pattern diametrically opposed to that presented by modern industry, which expands with the rise of the standard of living and of the purchasing power of the population. These restricted markets tend, in effect, to limit the standard of living throughout the whole of Latin America. A parallel to this dead weight can also be found in Europe, which suffers from the same ills". (Article in The New York Times, reproduced in El Economista, Buenos Aires, 7 July 1956.)

Adolf A. Berle, Jr., ex Assistant-Secretary of State and United States Ambassador in Brazil, struck by the same problem, wrote: "Jean Monnet showed the way ...when he established the European Coal and Steel Community, which has recently added the development of atomic energy to its list of activities". (Article from The New York Times Magazine, reproduced in Intermedio, Bogotá, 22 July 1956.)

(Translator's note: The above quotations have been re-translated into English, as it was impossible to obtain the original texts.)

/legislation, etc.

legislation, etc. - would increasingly tend to disappear. At this moment there is an apparently widespread trend towards improving the treatment hitherto accorded to such investment. In addition, the system outlined, by giving less occasion for the manifestation of national prejudices - with or without foundation -, would create an atmosphere of better understanding that also seems likely to favour larger contributions of foreign capital.

f) Transition in the direction of customs agreements

It should be made clear that the same circles which laud the advantages of the regional system do not consider it easy of attainment. The foregoing outline serves only as a brief summary of current thinking, or as an indication of what it is believed might be done if such a policy were jointly adopted. This line of thought for more than a century has been pursued with more or less ardour, but without interruption, throughout Latin America. Never before, however, have the idea of progress and the quest for better living conditions been so much in evidence in the Latin American community.

However, there appears to be a want of rational and lucid conceptions of what to do and how to do it. Judging by opinions voiced during the course of the survey, the moment has now come to give this rational impetus, for the belief is spreading that progress demands it. Given a genuine spirit of co-operation in responsible circles, the question would reduce itself to where to start and what should be the instruments employed.

It is a question - as has already been stated - of a long-term programme that must be put into effect. According to informed opinion, this might perhaps be an opportune moment for its inauguration, since a favourable atmosphere is created by the balance-of-payments problems, for the gradual solution of which recourse could be had to suitable bilateral agreements that would also serve to discipline and encourage inter-Latin-American trade. Such agreements might well prove to be of short duration, and thought would have to be given to more stable and permanent instruments for the support of such trade. As the Latin American countries achieved monetary stability, balance-of-payments equilibrium and consequently convertibility, they would depend less and less on exchange controls, and on quantitative restrictions. At the same time, trade treaties would have to give increasing importance to customs agreements.

/g) The two

g) The two phases of the integration programme

The task would be planned and undertaken in two stages. Ideas on this point are clear and practical. First, consideration would have to be given to the question of what industries, whether recently-installed or not as yet established, would from the outset need the regional market for their creation or development, given the necessary capital formation and consumer demand; and secondly, it would have to be determined what others, among those already operating at national level, depend on such a market for a reduction of their costs and for their future expansion. The former would include mainly production goods industries and some of those manufacturing durable consumer goods; pre-eminent among the latter would be the consumer goods industries.

h) Integrated industrialization in industrial sectors entering operation or projected

Of the two phases of the problem, the one which would more readily lend itself to any more or less immediate action would be, without doubt, the first mentioned. In the iron and steel, metallurgical, pulp and paper, motor-vehicle, railway and naval material and chemical industries, among others, there are many opportunities which would justify large-scale investment of foreign or Latin American capital or of both - on a joint basis or otherwise - if the availability of markets wider than those of the individual countries allowed satisfactory standards of productivity to be maintained, without the necessity of resorting to exchange manoeuvres and without the prospect of having to endure the effects of idle installed capacity, all too common to-day. To this end, the countries interested would need at their disposal some pre-established mechanism whereby, on each occasion, they could reach agreement both among themselves and with the investors as to the operations which these latter would effect in each of the countries concerned and the facilities they could be offered.

This constitutes a real possibility. Applications have already been submitted for the consideration of certain Governments, mainly by European firms. And failures have already been experienced because of the existing lack of any reasonably expeditious means whereby investors could conduct simultaneous negotiations with the authorities in several countries. In some cases the aim would be to carry out the industrial programme concerned

by complementary production of the principal component parts of a given commodity in more than one country (always in conformity with the criterion of comparative costs), with a view to selling the finished product in the territories of the contracting parties. To this end various possible combinations could be devised, always on the basis of equal advantages for all the consignatories. An optimistic view is taken of the effect which such a programme would have on South America through the resulting - and perhaps substantial - increase in the inflow of capital.

i) The role of the GATT

The implementation of production plans such as those described would make it desirable for certain customs agreements to be concluded between the interested parties. These agreements would take the form of a special tariff, for whose negotiation and application, according to opinions gathered, the best course would be to invoke the services of the GATT, to which eight of the twenty Latin American countries already belong. The statutes of this body contain clauses under which such agreements could be approved, as in the case of the Schumann plan, but an indispensable pre-requisite would be the working out of a concrete programme on bases designed to increase trade in general and not merely within Latin America. The accession to the GATT of those Latin American countries which are not already contracting parties would, it is thought, greatly influence its future decisions on matters concerning the region. Furthermore, as the implementation of a programme of this sort - in addition to the general advantages already noted - also considerably affects the interests of groups and enterprises within the countries concerned, their accession might contribute, according to very decided opinions expressed in South American countries members of the GATT, to the achievement of the desired ends. In view of the importance attributed to this question, it is to be hoped that a satisfactory formula will be found whereby the existing cohesion within this body can be maintained and increased. The preparation of the programmes in question could be among the future duties that might be assigned to the Trade Committee.

j) Initiation of the programme

As a practical device for putting these ideas into effect, the following may be suggested: the Trade Committee might be consulted as to the timeliness

/and expedience

and expedience of organizing a small group within its own set-up, to which the countries participating would delegate the task of receiving - in conformity with certain rules - the proposals of the private investors interested, and of consulting the different Governments, through channels to be determined in due course, as to the conditions which might, after due study, be offered prior to the conclusion of a multilateral pact, as a result of which the co-operation of the international organizations could be secured.

Here, then, is another point of immediate practical importance with which the Trade Committee might deal at its forthcoming meeting, if it thought fit, apart from the payments problem.

k) Bases for a special régime

As regards the second phase in the development of a unified industrial policy - that relating to industries already existing in the Latin American countries and dependent on a wider market beyond the national frontiers for the reduction of their costs and for their future expansion - the programme concerned would necessarily have to be worked out as time went on, and with the greatest care, since it would call for the carrying-out of highly objective studies, as well as the formation of public opinion and of a receptive attitude among both industrialists and workers; in short, for toilsome negotiations. This phase would come about in its own due time, hastened, perhaps, by the results achieved at an earlier stage through the multilateral trade and payments policy. Another helpful factor would be the highly essential experience that may be acquired in the course of one of the tasks which lies ahead. Allusion has already been made to the co-ordination of the monetary, exchange and trade policies of the various countries, which, as was pointed out, is an indispensable pre-requisite for the special régime outlined. In turn, the establishment of this régime would already have begun with the execution of the programmes belonging to the first phase in those sectors where no large-scale industry exists, or is to be found only in an unambitious form. Subsequent developments would inevitably be conditioned by the success of such an undertaking.

With a view to the attainment of these objectives, it would be highly desirable for the appropriate international organizations to collaborate with the various Governments, their technical resources and those of their industrial

circles, in carrying out a study aimed at drawing up a sort of map of Latin American industry, showing which of the existing industries lack adequate markets; which might be transferred and where their new location should be; what would be the possibilities of doing this, and how negotiations should be conducted in order to ensure that the different countries obtained equal advantages and equitable remuneration of the factors of production. The task would be of wide scope, and would be directed towards the "specialization-effect" and the "employment-effect".

If, in addition to the first steps sketched out in Part I of this report and the establishment of the basic principles described so as to promote the programme of industrialization on a regional scale, it were also possible for this study to be carried out, considerable progress would have been made towards a better grasp of the details of the problem, without which criteria and procedures cannot be satisfactorily determined. Light would also be shed on such questions as comparative standards of productivity among the main industrial countries of the region.

The study in question, which would precede the second phase, would constitute the scientific basis of the programme under consideration, since it would indicate the concrete lines along which such a programme could be realistically worked out. By the time it was completed, an advance might already have been made towards the intensification of reciprocal trade and in the direction of a multilateral payments system (perhaps with the help of a regional clearing institution which might be set up and which would serve to consolidate such effort). A beginning might even have been made, if all went well, on the creation in Latin America of certain internationally integrated industries. The South American economic co-operation programme, planned and developed in the gradual stages described, might by progressive degrees bring about the ultimate fulfilment of the region's widespread aspirations towards its economic integration.

The task is arduous and complex, but not impossible; and the time is ripe to embark upon it. Such is the impression prevalent in almost all the circles consulted. It remains to be seen whether at government level the consensus of opinion necessary for its execution will be forthcoming.

3. Recommendations

1) It is considered that agreements should be concluded with a view to promoting - by means of collaboration among several countries, and on a basis of financial contributions from both regional and foreign sources - the establishment of development of industries that require substantial capital and wide markets.

As an initial step it is recommended that a small technical organization should be instituted for the purpose of receiving investment proposals, carrying out a preliminary study of such applications, submitting them to the Governments concerned and facilitating not only an understanding between the authorities and the investors, but also the conclusion of the final agreements.

2) It is felt to be expedient that in the field of trade policy steps should be taken to establish general principles and certain specific procedures conducive to the gradual building-up of a regional market on multilateral and competitive bases. This regional market would permit the intensification of those Latin American lines of industrial production in which a reduction of costs and future expansion basically depend upon an increase in consumer capacity.

At this level, and as a preliminary phase, the drawing-up of an industrial map of Latin America is suggested, mainly with a view to the determination of possible and advisable action.