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ECONOMIC COMMISSION FOR LATIN AMERICA
Sixth Session
Bogota, Colombia
29 August 1955

COMMITTEE II

(Economic Development and Technical Assistance)

PROVISIONAL SUMMARY RECORD OF THE FIFTH MEETING

Held at Bogota on Thursday
8 September, 1955 at 10:35 a. m.

CONTENTS:

General discussion (continued)

PRESENT:

Chairman:	Mr. MULLER	Venezuela
Rapporteur:	Mr. GUERRERO	Nicaragua
Members:	Mr. VALLADARES	Argentina
	Mr. ARCE	Bolivia
	Mr. PATRIOTA) Mr. CORREA LIMA)	Brazil
	Mr. ORTIZ LOZANO) Mr. ALVAREZ RESTREPO)	Colombia
	Mr. DIAZ MASVIDAL	Cuba
	Mr. DAZA	Chile
	Mr. PITARQUE	Ecuador
	Mr. QUINTEROS	El Salvador
	Mr. HOWE	United States of America

Note: Corrections to this record should be submitted in one of the three working languages (Spanish, French or English) and addressed to Mr. Alfonso Santa Cruz, Secretary to the Conference within 48 hours. The corrections should be accompanied by a note or written on headed notepaper and should give the symbol of the summary record in question or, better, be made on a mimeographed copy of the record.

/Mr. VIAUD

Mr. VIAUD	France
Mr. HUDICOURT) Mr. APOLLON)	Haiti
Mr. BUESO ARIAS	Honduras
Mr. ZAMORA) Mr. NAVARRETE)	Mexico
Mr. VAREKAMP	Netherlands
Mr. CASTILLO) Mr. GUERRERO)	Nicaragua
Mr. McCULLOUGH	Panama
Sir Keith JOPSON) Mr. SCOTT FOX)	United Kingdom of Great Britain and Northern Ireland
Mr. NADAL JAUNE	Uruguay
Mr. BELLO	Venezuela

Also present:

Observers from Member States:

Mr. ALMASY	Czechoslovakia
Mr. KOTT	Poland
Mr. BJORCK	Sweden

Observers from non-member States:

Mr. FIORIOLI della LENA	Italy
Mr. ROBERT	Spain

Representatives of Specialized Agencies:

Mr. ORTIZ	Food and Agriculture Organization
Mr. LASO) Mr. VERA)	International Monetary Fund

Representative of an inter-governmental agency:

Mr. PILVIN	Inter-American Economic and Social Council

Representative of non-governmental organizations:

Category A:

/Mr. LUNAZZI

	Mr. LUNAZZI	International Chamber of Commerce
	Miss KAHN	World Federation of Trade Unions
Secretariat:		
	Mr. PREBISCH	Executive Secretary
	Mr. FURTADO) Mr. GANZ)	Secretaries to the Committee

/GENERAL DISCUSSION (continued)

GENERAL DISCUSSION (continued)

Mr. HUDICOURT (Haiti) congratulated ECLA and the Department of Economic and Social Affairs on their joint study of foreign investment in Latin America, from which the countries concerned should now draw practical conclusions. It showed that, up to the present, foreign investment had played only a secondary role in the economic development of Latin America, and that, as a general rule, only one or two primary materials had been developed in each country. Ancillary services, such as transport and energy, had been developed only in so far as they had been needed for the exploitation of the primary materials. The efforts of the Latin American Governments to attract foreign capital for their development plans had been largely unsuccessful and that trend might have continued if Latin American countries had not intervened to modify the direction of investment.

The Latin American countries had therefore turned to governmental and international financing. State financing organizations had been set up in some countries, and the Import-Export Bank and the International Bank for Reconstruction and Development had been asked to finance specific projects.

The only remaining recourse of Latin American countries, to finance their economic development projects, was domestic saving. But the Economic Survey of Latin America, 1954, clearly showed that they did not achieve an adequate level of domestic saving to finance their development plans. The Executive Secretary had been of the same opinion and had advised countries in need of capital to tap foreign sources. In the case of Haiti, its national resources were so small that development could not be envisaged without foreign help.

One of the principal lessons to be learned from the Survey was that the Latin American Governments should not count too much on the amount and end purpose of private capital to finance their economic development. There had been heavy private foreign investment in a few types of agricultural and mineral exploitations, but the capital for the development of the basic economic structure of the countries concerned had come mainly from governmental or international sources. Some United States and European financial groups were beginning to consider investment in Latin

/American development

American development plans, but their attitude was cautious and a large influx of capital could not be expected immediately.

The Latin American Governments should therefore continue to support the establishment of the Special United Nations Fund for Economic Development, the Inter-American Bank, and the International Finance Corporation. The action of those organizations would encourage private investors.

ECLA and the United Nations Department of Economic and Social Affairs were to be congratulated on providing such a clear picture of the role of private foreign investment.

Periodic information on the flow of foreign investment in the area, and its effect on economic development, would be of the greatest use to the Latin American countries, and ECLA should undertake to provide such analyses.

ECLA should not be content to provide mere statistics, but should comment on and analyse the role of foreign investment in economic development.

Mr. VALLADARES (Argentina) agreed that private investment had not contributed in the past to the economic development of the Latin American countries. However, foreign capital could be used to accelerate economic development if public and private investment were judiciously co-ordinated in the national development plans.

It had already been pointed out that foreign capital was shy, and that, in order to attract it, the Latin American countries must give sound guarantees to foreign investors. The natural resources of Latin America, and the existing industries, commercial networks and banking system provided a favourable field for the investment of foreign capital. All that was needed to attract foreign investment was a climate of confidence.

Argentine law 14222 which was designed to encourage private investment and development, provided that investment should, 1) be made first in industry and mining; 2) contribute to the success of the five-year plan and, 3) save foreign currency, by producing either exportable goods or substitutes for imports. Foreign investors could repatriate 8 per cent of their earnings in the country and a slightly higher percentage of

/their capital,

their capital, and they were also given certain privileges with regard to the import of equipment and the supply of raw materials. Multiple rates of exchange had been a great problem as far as foreign investment was concerned, but many of the difficulties had been overcome since capital could be registered in foreign currency. The results of those measures since 1954 had been spectacular. Foreign enterprises were now building tractors in Argentina.

Argentine investors had in the past been suspicious of foreign capital, fearing that it would deprive them of investment opportunities, but their attitude had changed since most foreign investment was now made with the participation of local capital. Considerable progress had already been made in the field of production, but much remained to be done, and private foreign investment must be complemented by public international investment. His government would explore all possibilities.

Private investment in Argentina came mainly from the United States, Germany and France, plus a small amount from Italy. There was no difficulty with regard to the entry of United States capital, which was freely convertible, but there was sometimes delay in obtaining the consent of the German control authorities to the export of funds. The French control authorities approved nearly all applications.

The question of double taxation was one of the biggest obstacles to investment. The Tenth Inter-American Conference had made a recommendation to the United States Congress on that point, but without result. The present United States corporate tax of 52 per cent was a great impediment to the flow of investment and it would have to be considerably reduced if private investment were to be stimulated. Investment income should be taxed at the source, that is in the country where the investment was made. He hoped that the United States Congress would reconsider its attitude.

Mr. DIAZ MASVIDAL (Cuba) outlined the measures adopted by his Government to attract foreign capital and stimulate new industries. Double taxation was one of the main obstacles to the flow of investment, in Cuba as elsewhere. The problem had been given consideration at the Rio de Janeiro Meeting of Ministers of Finance or Economy and it was hoped that an agreement would soon be reached.

/Cuba was

Cuba was particularly interested in the social aspect of economic development. It was obvious from the ECLA study on social conditions that social legislation was, in many cases, an obstacle to the establishment of a proper climate for investment. He felt that ECLA should continue to study the problem, and would submit a draft resolution on the subject in due course.

Mr. ALVAREZ RESTREPO (Colombia) stated that his delegation fully agreed with the points of view expressed in the ECLA report on the Economic Development of Colombia (E/CN.12/365). He commended the scope of the study and the high level and technical competence of the analysis, as well, as the usefulness of the study to Colombia.

As was pointed out in the report, it appeared that one of the main problems was inadequate foreign investment and the use of domestic saving. It was a problem that applied generally to all of Latin America.

The report stated that in Colombia there had been a general migration from the rural to the urban areas, but in fact, the migration was mainly from individual farms to the rural small towns and villages which depended mainly on agriculture for their subsistence. He estimated that 70 per cent of the population of Colombia lived off the rural areas. Therefore, the migration was more apparent than real.

A factor which should be taken into consideration when dealing with the problem of migration from the rural areas was that the rural population tended to be much more prolific than its urban counterpart.

Turning to the matter of investment, he said that in Colombia the government had been forced to adopt a policy of qualitative and selective investment. He cited the fact that the main source of foreign exchange was coffee exports which produced an annual revenue of between 400 and 480 million dollars. Since that sum was barely enough to pay for essential imports, it had been found necessary to establish a strict selection in the use of the available exchange. In order to improve the situation, his government had endeavoured to substitute imports through the development of domestic industry, particularly in the metallurgical field. The government had also launched a programme of self-sufficiency in primary materials in order to reduce imports. He cited the fact that while previously Colombia had imported raw cotton the rate of 52 million dollars per annun,

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now there were virtually no raw cotton imports.

With regard to industrial development, it could best be carried out by private enterprise, with help and guidance from the government. Considerable progress had been achieved along those lines and it was encouraging to see the manner in which private enterprise had cooperated. The basis for an integrated and steady development in all phases of the economy of the country lay in a sound programming policy, and it was a field in which ECLA could make a very significant contribution.

His delegation concurred with others which said that the role of foreign investment in Latin America was not as active as it could be. Colombia offered excellent opportunities for private foreign investment. Practically all of the restrictions and barriers to foreign investment had been removed, but as yet that had not been sufficient to attract the necessary amount of foreign investment. His country needed new foreign capital investment at the rate of between 100 to 120 million dollars annually. Only the petroleum industry could count on the foreign capital necessary to develop normally.

One of the main obstacles to the flow of foreign capital was the problem presented by the policy of double taxation. A resolution against that policy had been adopted at the Fifth Session of ECLA at Quitandinha in 1953, but it would take time for its beneficial effects to be felt.

Another very important point was the human factor. The case of the worker on coffee plantations was a particularly sad one. On the average, families of 8 persons lived on the production of 5000 coffee trees, which normally could support only 3 persons. Efforts should be made to improve that situation, not only from the human point of view but also with the ultimate purpose of raising the average purchasing power of the rural population.

The problem of the rural population was aggravated by its high birth rate which in Colombia was about 2.5 per cent. That meant that the population increased at an annual rate of 300.000, for whom new jobs would have to be found.

He did not share the view that the solution to the problem of expansion of agricultural production lay in a greater degree of mechanization, particularly for countries such as Colombia, which had abundant manpower, In his view, an accelerated policy of mechanization might cause an increase

/in unemployment.

in unemployment. The solution was perhaps to proceed very slowly with a modest programme of mechanization, which might run parallel with the establishment and development of small industries in the rural areas. Besides absorbing any manpower left unemployed by that mechanization, small rural industries would contribute to filling the gap left by the seasonal natural of the coffee industry. His government had already launched a limited programme of developing small rural industries, particularly in the field of textiles.

In conclusion, he wished to congratulate ECLA for its study and recommended that it be completed by an analysis of needs in the field of technical training. His country was in need of such a programme of technical training, a programme which would embrace the widest possible sector of the working population; The government had already began to set up some technical training schools, but the number was still insufficient.

Mr. HOWE (United States of America) referred to the question of double taxation and private foreign investment, which had been raised by the representatives of Argentina and Colombia.

The rate of corporate taxation was indeed 52 per cent, as the Argentine representative had pointed out, but since there was a 14 point preference granted to investments in western hemisphere trade corporations, the rate was actually 38 per cent.

A proposal on the matter of double taxation had again been submitted to the consideration of the United States Congress the previous summer and it was expected that it would be considered when Congress reconvened early in 1956, so it could not be said that it had become a dead issue. He wished to point out that the United States was fostering a policy of bilateral treaties on tax treatment to stimulate the flow of foreign capital.

Since the resolutions adopted at Quitandinha had come into force, his government had in fact undertaken a series of bilateral negotiations -notably with Cuba, Mexico and Honduras - on the problem of double taxation. The United States had not ceased to seek ways and means of reducing double taxation but it was of necessity slow work. His delegation would welcome an exchange of views with all delegations interested in that matter.

/Mr. LUNAZZI

Mr. LUNAZZI (International Chamber of Commerce) said that, as representative of an organization with connexions in 58 countries, he could confidently say that problems which affected Latin America were also related to those of other countries. The work of ECLA as described in its 1954 Report, was of great value and fruitful results would be obtained from the application of its recommendations. His organisation supported the viewpoint of GATT on the matter of tariffs, and it strongly opposed the principle of double taxation. Taxes should be levied at the place where invested capital operated. His organisation, had made, and would continue to make, every effort to achieve simplification of tariff regulations and elimination of trade barriers.

Aside from any resolution or recommendation that might be adopted during the current session, he considered even more important the spirit with which all delegations approached the problems submitted to their consideration. He had noted an increasing awareness of the importance that should be attached to private initiative. There was a very real need to abandon the concept that the State should be the provider and should be charged with the duty of resolving all problems. On the contrary, the way should be opened more and more to private enterpirse.

The meeting rose at 12:35 p.m.