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ECONOMIC COMMISSION FOR LATIN AMERICA
Fifth Session
Rio de Janeiro, Brazil

COMMITTEE I (Current Economic Situation and Prospects)

SUMMARY RECORD OF THE FOURTH MEETING

Held at Rio de Janeiro on Friday,
17 April, at 10 a.m.

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(E/CN.12/291/Rev.1) (continued)

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PRESENT:

<u>Chairman:</u> Mr. VENTURA	Argentina
<u>Rapporteur:</u> Mr. CASAS BRIGENO	Venezuela
<u>Members:</u> Mr. MARTINEZ	} Argentina
Mr. BALBOA	

/Mr. LCAZAR

Mr. ALCAR	Bolivia
Mr. MANGIA	Brazil
Mr. RUIZ	Chile
Mr. MEJIA	Colombia
Mr. CARDENAS	Ecuador
Mr. QUEZADA	El Salvador
Mr. COTTIER	France
Mr. HUDICOURT	Haiti
Mr. ZAMORA	Mexico
Mr. FEIN	Netherlands
Mr. NUÑEZ	Paraguay
Mr. JACKSON	United Kingdom of Great Britain and Northern Ireland
Mr. ASHER	United States of America
Mr. PASTORI	Uruguay

Also present:

Representatives of Specialized Agencies:

Mr. DEL CANTO	}	International Monetary Fund (IMF)
Mr. ROBICHEK		

Representative of a non-governmental organization:

<u>Category A:</u>	Mr. STEBELSKI	International Chamber of Commerce
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<u>Secretariat:</u>	Mr. URQUIDI	Secretary of the Committee
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Mr. MENDIVE

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TERMS OF TRADE AND TRENDS IN IMPORTS AND EXPORTS
(E/CN.12/291/Rev.1) (Continued)

Mr. RUIZ (Chile) said the problem of deterioration in the terms of trade was of serious concern to Chile. The Latin-American countries had suffered from the results of the depression of 1930-31 for some fifteen years and it was only after 1945 that their terms of trade had begun to return to the pre-1930 level. It would be of interest to have figures showing the effect on the Chilean economy of the continued duration of an unfavourable relation between exports and imports, and he suggested that the ECLA Secretariat might produce a study on the subject.

Chile's terms of trade had recently shown an improvement but only because the Government had intervened to fix the price of the country's principal export. Future prospects were gloomy. The Secretariat study (E/CN.12/291/Rev.1) showed a downward trend from 1950 which was having an unfavourable effect on the national income and the possibility of domestic capital formation. He believed ECLA should carry out further study of this problem and of the likelihood of substituting the loss of export proceeds.

He supported the Guatemalan representative's suggestion that ECLA should study the possibility of promoting further processing of raw materials in the producing country. He also supported the studies suggested by the Colombian and Brazilian representatives.

/Mr. MARTINEZ (Argentina)

Mr. MARTINEZ (Argentina) said the problem of terms of trade, which was closely related to the possibility of internal capital formation and industrialization, was one of the most fundamental factors affecting the rate and process of economic development. ECLA's courageous confrontation of the problem in its study would prove a valuable contribution to its solution.

The chief trend apparent in international trade since the end of the war had been the instability of markets which had led to a reduction in the export possibilities of raw material producing countries. With the increased competition of the highly industrialized countries, the less developed countries had found it increasingly difficult to export semi-processed goods.

He drew attention to resolutions 5 and 6 adopted at ECLA's third session in Montevideo, which pointed out that the worsening in the terms of trade had been the factor which had most detrimentally affected the capacity to import of the under-developed countries.

In wartime there was a tendency for highly industrialized countries to attempt to transfer costs to the producers of raw materials, and in favourable periods when the demand for raw materials increased the highly industrialized countries adopted price control measures so that the under-developed countries did not receive the full benefit of the increased demand.

The Secretariat Study drew attention also to the fact

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that when food producing countries received smaller profits from their exports there was a tendency for domestic consumption to increase leading to a further decrease in available export balances.

The question of terms of trade was of vital importance to Argentina. If its capacity to finance economic development from domestic sources was reduced, the only solution, in order to maintain its rate of development, was to increase imports of foreign capital. Such imports might be a supplementary source of financing for economic development programmes, but in principle, those programmes should be financed as far as possible from domestic capital.

He had been most interested in the Guatemalan representative's remarks on the possibility of the under-developed countries' exporting more highly processed goods, but it would be necessary to accompany any such attempt by measures to promote the fulfilment of plans for industrialization and development. The progressive utilization of substitutes by the industrialized countries constituted another obstacle to the realization of that possibility.

His Delegation felt the problem of terms of trade should be viewed from three aspects: the further processing of goods for export; the recommendation to industrialized countries that they should not foster the production of substitutes for the under-developed countries' products; and, until the development of the under-developed countries enabled them to compete on more or less equal terms, there should be an

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attempt to maintain a just and equitable relationship between the prices of primary products and those of the capital goods and other manufactured articles they had to import.

Commenting on recent trends in Argentina's foreign trade, he said exports had been affected by a series of factors both internal and external. Moreover, Argentina's growing import needs for its development programmes had made it necessary to change the structure of its imports. There had been a reduction in imports of manufactured articles and consumer goods and an increase in imports of capital goods, fuels and equipment. Attention had been devoted to the question of the limits to which substitution of domestic production for imports could be carried out, but Argentina's capacity to provide substitutes for some of its imports had not yet been fully developed.

During the last two years, terms of trade had been more unfavourable for Argentina than for other Latin-American countries, and a series of measures had been adopted in the attempt to bring about a more favourable placing of exports. The channelling of trade through bilateral agreements had reduced Argentina's import capacity since it had been compelled to obtain goods from markets for which foreign exchange was available instead of from those markets where the goods it required were sold at the most favourable price. A survey carried out by his government showed that export prices of countries supplying Argentina under bilateral agreements were from 10 to 20 per cent above prices in the most favourably-priced /sources. His

sources.

His delegation believed that the best way of obtaining more favourable terms of trade and expanding the production of primary products would be to accompany the production of such products by a certain degree of industrialization which would increase the domestic market for primary products and make them less dependent on fluctuations in the international market.

Mr. MANGIA (Brazil) commended the Secretariat for its excellent study (E/CN.12/291/Rev.1). There were, however, certain statements regarding Brazil which would require amplification, such as the reference to the phenomenon of import substitution being more intense in the case of capital goods industries than in consumer goods industries.

Commenting on the composition of Brazil's exports and imports, he said the system of quotas established by the International Raw Materials Conference had prevented the expansion of Brazilian production. He expressed recognition of the goodwill shown by the United States in the fixing of quotas for United States goods not subject to control by the IRMC.

In its study, ECLA had emphasized the need for an improvement in the terms of trade of the Latin-American countries and a readjustment in the relationship between the export prices of raw materials and the import prices of finished goods. During the period from 1930 to 1949 there had been a marked deterioration in Brazil's terms of trade.

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Brazil had had a constant inflow of foreign exchange during the Second World War, but the non-availability of consumer goods had prevented it from obtaining full benefit from it. The Korean war had favourably influenced its terms of trade, but that advantage had been partly offset by the imposition of ceiling-prices and the cost of maritime transport.

He felt that ECLA should carry out further study of the reduction in the export capacity of under-developed countries due to the drop in the world prices and the increased domestic costs resulting from inflation. He pointed out that the decline in primary production in countries such as Brazil was due to: (1) the promotion of the production of synthetic substitute products by industrialized countries; 2) attempts by industrialized countries to introduce the cultivation of certain agricultural products which they had previously imported; and 3) greater competition on the part of European colonies in Africa.

He would introduce a draft resolution on improving the terms of trade and promoting the economic development of under-developed countries (See conference room document No.7)

Mr. ASHER (United States of America) said all governments were naturally interested in securing favourable terms of trade, but while the terms of trade index constituted a useful economic tool, sweeping generalizations about the course of economic development could not be drawn from it. The terms of trade index had certain limitations, such as the incompleteness and inaccuracy of statistical data, changes in
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the composition of trade, changes in the quality of goods and the fact that the terms of trade revealed nothing about the volume of trade.

In view of the probable margin of error, it would be unwise to attach significance to small variations in the terms of trade index. Moreover, a period of statistically favourable terms of trade might be unfavourable in the broader economic perspective. Conversely, a nation might experience a worsening of its terms of trade but, thanks to technological progress or other factors, be in a better position than before.

He had referred to the difficulty of measuring quality changes in manufactured goods. While the cost of such goods might have increased, the increase might be fully offset by improvements in the service rendered and the durability of the product.

Another difficulty was the impossibility of accurately forecasting movements in the terms of trade. Certain raw material exporters foresaw a worsening in their terms of trade, but there was a substantial body of opinion which believed that the long-term trend was favourable to raw material producers. In any event, as individual countries diversified their economies and became less dependent on exports of a few basic products, their interests would change. The industrial sectors of their economies would be dependent upon a plentiful supply of raw materials at reasonable prices and the benefits of one sector of the economy might offset the losses suffered by another because of changed terms of trade. However, a greater measure of overall stability would be achieved.

Changes in terms of trade without changes in volume would succeed only in improving the situation of one nation at the expense of another; the total availability of goods and services would be unaffected. The improved standard of living so essential throughout the world required vastly increased production in virtually every sector of the economy.

Mr. BALBOA (Argentina) wished to comment on two points raised by the United States representative; the comparative value of the statistical measurements of terms

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of trade for Latin American countries. In the first place, the reliability of such statistics was not open to doubt, within the normal limits of tolerance of the basic data. It was easier, in any case, to establish accurate figures for raw material exports than for exports of manufactured goods.

The United States representative had contended that the preponderant factor for economic development was not the terms of trade but the relationship between the volume of exports and the volume of imports. But authoritative evidence existed that there was no correlation between the volume of imports and the volume of exports, but only between the volume of imports and the terms of trade. Hence, it was irrefutable that any worsening in the terms of trade would react upon the Argentine economy, since its capacity to import was directly dependent on the terms of trade.

Undoubtedly for highly industrialized countries such as the United States the coefficient of foreign trade to national income was very important. For the Latin American countries however, there was a marked relationship between the terms of the trade and the level of investment. And the fact that the raw materials exported had to be exchanged for consumer or capital goods accounted for the basic influence exercised by the terms of trade upon Latin American Economic development.

Mr. HUDICOURT (Haiti), speaking generally, said that the survey revealed that Haiti had enjoyed favourable

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favourable terms of trade up to 1951. The situation had changed since that time owing to the drop in the price of its second export, sisal which illustrated how sensitive the under-developed countries were to changes in the terms of trade. Haiti would thus lose some 20 per cent to 25 per cent of its foreign exchange income in 1953 and in consequence its imports would have to be cut proportionately, because of the interdependence of the two factors.

The Guatemalan representative's proposal was designed to promote the export of semi-processed goods had obvious international aspects, since there were customs barriers in other countries and other obstacles. The Colombian representative, on the other hand, had held that it was a national problem, citing the coffee industry in support of his contention. The choice was unfortunate, since the coffee market was highly specialized in individual countries. He would like to cite other cases, such as sugar, petroleum, sisal. Sugar, a more representative product, would illustrate his arguments.

Apart from Cuba, whose sugar production enjoyed a preferential market in the United States which had led to the investment of foreign capital in the country, the remaining sugar-producing countries of the Caribbean and Central America area had so far been debarred from developing any degree of material industrialization of the industry. The United States market was closed to them and the so-called "free market" in sugar was really controlled

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by the United Kingdom which operated a preferential system in favour of the British Commonwealth countries and refined its own supplies. The obstacles thus created prevented any real free trade in sugar, and removed any possibility for the development of the refining industry within Latin America. His facts were called from authoritative studies carried out by the Pan-American Union and by specialized agencies of the United Nations.

Mr. ZAMORA (Mexico) said that, if he had understood rightly, it appeared that the United States representative had some doubts as to the accuracy of the information in the ECLA economic survey; his chief contention had been that the terms of trade were not the pre dominant factor affecting Latin American economic development. There was no doubt in his own mind that the terms of trade exercised decisive influence. The capacity to import of most Latin American countries was given by the exchange earned by exports, which in turn was dependant on the terms of trade. And the possibilities of economic development were limited by the amount of capital goods that could be imported.

While agreeing in general with the Brazilian proposal, he felt some misgivings as to whether the Committee might not be encroaching on the provinces of the committees on industries and intra-regional trade.

THE CHAIRMAN thought that the other committees might be approached with a view to submitting a joint draft resolution to the plenary.

/Mr. PASTORI

Mr. PASTORI (Uruguay) did not believe that there could be any divergency of view on three basic points: the need to achieve an appropriate balance in the terms of trade and an equitable relationship between export and import prices, and thirdly that the economic needs of each individual country should be taken into account in considering measures to those ends.

He referred to resolution 32 adopted at the Ia-ECOSOC conference in Caracas, concerning the terms of trade and the need to study the possibility of negotiating multilateral agreements on raw materials for the purpose of maintaining a fair relation between the prices of imports and exports, and stated his delegation would introduce a draft resolution on the subject.

GENERAL POSITION OF INDUSTRY, MINING AND ENERGY

Mr. URQUIDI (Secretary of the Committee) explained that the aim of the Secretariat in the survey had been to provide a general summary of recent and prospective trends in industry, mining and energy in Latin America and at the same time to draw attention to general problems affecting most countries.

Industrial production had increased rapidly throughout Latin America as a whole in the last few years, although there had been a slower rate of increase in 1952. Conditions varied greatly from country to country; most had been affected by the world textile crisis, and in some the production of capital goods had shown an extraordinarily /sharp rise.

sharp rise.

The general problems included the shortage of power and the unequal development of some industries as compared with others, sufficient domestic supply of raw materials had not always been ensured and complementary industries had not been set up, which led in some countries to under-utilization of capacity. That illustrated the need for better industrial planning.

The shortage of electric power, which was already rationed in many countries, was another serious problem. The section in the Survey on electric power attempted to give a general picture of what countries were doing to overcome the shortage. The growth of energy consumption in 8 major Latin American countries stood at the high figure of 9 per cent per annum and that was not even indicative of the potential rate of increase.

The survey also covered recent trends in petroleum production, which was rising rapidly, particularly in Venezuela, Petroleum exports now accounted for almost one-fourth of the total volume of Latin American exports. In that respect, too, the position varied greatly from country to country. Some were large exporters and others large importers; the latter having obviously to draw heavily on their foreign exchange assets. Development policies also differed widely. In some countries domestic refining of petroleum had increased considerably.

Mining and mineral products covered so vast a field

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that the survey had been limited to three principal products, copper, zinc and lead. The production of all three had risen, but that of copper had not yet recovered fully the 1948 level.

GENERAL CONSIDERATIONS

Mr. CARDENAS (Ecuador) drew attention to the need for supplying the Secretariat with full information and said he would later submit a draft resolution on the matter.

The meeting rose at 12.30 p.m.

