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NOTE BY THE SECRETARIAT ON THE COMMISSION'S ACTIVITIES
IN THE FIELD OF ECONOMIC INTEGRATION

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INTRODUCTION

The purpose of the present note is to report fully to the members of the Trade Committee on the activities of the Economic Commission for Latin America in respect of economic integration. This work is being carried out mainly in the following fields: trade policy, institutional machinery, integrated industrial development, agriculture and transport.

I. INTEGRATION AS A FACTOR OF DEVELOPMENT

1. Obstacles to economic development

The Latin American economy is faced with serious internal and external difficulties which hinder it from attaining a satisfactory rate of economic growth. These difficulties are so closely inter-related that the removal of one set of obstacles implies simultaneous action to eliminate the other. Consequently, in order to solve the problem of slow economic development an over-all approach must be adopted, covering both types of obstacles in their entirety, and comprising, inter alia, a policy of regional economic integration.

(a) The internal sector

The following are the most important of the internal factors that hamper economic development: tardiness in introducing the basic structural reforms required to promote social change and raise the level of national integration - for instance, agrarian and tax reforms, measures to improve income distribution, and organization and training of the human factor; the shortage of capital for investment purposes; the relative stagnation of the agrarian economy; and the obstacles that stand in the way of a dynamic industrialization process, namely, the lack of resources referred to and the chronic balance-of-payments deficit, as well as the excessive protection, within the narrow framework of the individual country markets, which is fostered by the aggravation of the external financial situation, and which leads to the establishment of low-yielding activities that do not help to raise the level of productivity as they should.

/(b) The

(b) The external sector

On the external side, the real imbalance and the still bigger virtual deficit that become apparent when the import requirements of a dynamic development process are compared with the unsatisfactory prospects for the growth of export earnings complete the over-all picture of the basic factors limiting the development of Latin America.

Import substitution and external financing are the two expedients to which the countries of the region have resorted in order to accelerate their development and solve the problem of the external bottleneck. Import substitution has been reflected in an intensive industrialization process, has speeded up economic growth and has helped to raise per capita income levels. In those countries where it has been carried farthest, it has brought about an internal reallocation of resources, a metamorphosis of the structure of production and a change in the composition of imports.

Nevertheless, owing to the inadequacy of external demand or the deterioration of the terms of trade, the increase in Latin America's current foreign exchange income has not been large enough to meet the region's import requirements and its commitments under the head of financial servicing of external investment and loans. Broadly speaking, the Latin American countries have not managed to diversify their exports, for want of a policy deliberately aimed in that direction which might have led them to steer a different course in respect of import substitution, although it is doubtful how far the industrial countries would have been willing to import manufactured and semi-manufactured goods from the developing economies.

The import substitution policy and the external indebtedness of the more developed Latin American countries have involved them in a serious financial problem, and a situation of such extreme rigidity as regards their external relations that import restrictions - in the countries where the substitution process is most advanced - can no longer be applied to consumer goods, which are now hardly imported at all, but affect raw materials and capital goods, to the detriment of economic development and the level of current economic activity.

As for the countries whose import substitution process is still in its initial stage, they will reach the corresponding saturation-point perhaps

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even more quickly, unless they succeed in adequately developing their external sector, since their markets are more limited, and so are the investment resources available for import substitution on economically sound lines.

2. The role of integration in economic development

Integration would seem to be precisely the means whereby the external bottleneck problem can be directly tackled and a climate of healthy competition can be established, propitious to the improvement of productivity and the promotion of economic development in the Latin American countries. It will enable the process of import substitution to be continued in relation to a Latin American market, whose broader dimensions will make a certain type of specialization and complementarity possible, whereby the benefit of each country's relative advantages will be reaped, besides that of economies of scale, especially in the dynamic industries. Latin America will thus find it a sound proposition to begin producing many items now imported, whose replacement by domestic production, although relatively easy from the technical standpoint, is at present impracticable on account of the narrow limits of the individual country markets.

In this way, the expansion of the Latin American countries' reciprocal trade will help to reduce the virtual deficit at present appearing in the projections of their economic growth.

The improvement of the economic efficiency of production in Latin America, the advance of industrialization and the establishment of closer interdependence among the countries of the region will facilitate the attainment of other important objectives. Better conditions will be created for diversifying exports to other regions through the development of new industrial trade flows, and Latin America will acquire more of the bargaining power it needs to secure equitable treatment in its trade and financial relations with countries whose income levels are higher.

It is worth while to stress, however, that integration should not be regarded as the panacea which will suffice in itself to solve the whole problem of Latin America's development, although it is unquestionably the means at the disposal of the Latin American countries for the immediate

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promotion of economic growth at the national level; the progress made will be slower unless the countries of the region concurrently apply a planned policy to remove the internal obstacles to national development.

Nor must it be supposed that the continuation of the import substitution process in the framework of a regional common market can ultimately make the Latin American economy self-sufficient. Integration does not imply the deflection of trade and financial flows from the rest of the world into intra-regional channels, but the expansion of trade and the creation of new trade flows for each of the Latin American countries. The Latin American common market will have to increase its trade with other parts of the world in order to obtain essential goods, assimilate technical progress and augment its investment resources with external financing. In short, more technical and financial co-operation will be needed than the region as a whole has hitherto enjoyed.

/II. ORIENTATION

II. ORIENTATION OF ECLA'S ACTIVITIES IN THE FIELD OF INTEGRATION

1. Role of the Trade Committee

In its effort to help remove the obstacles to economic development in Latin America, the Commission has for many years placed special emphasis on three main fields of action: economic and social planning with a view to promoting the necessary structural reforms; improvement of the terms of trade and of the conditions of access of exports to world markets, in order to increase foreign exchange earnings, and regional integration with a view to overcoming the inadequate dimensions of the national markets.

In the field of integration ECLA's first efforts were directed to establishing the bases for a Central American common market. Since 1955 the problem of the economic integration of the whole of Latin America has been the special responsibility of the Trade Committee.

At the Trade Committee's second session, held in Panama in 1959, the representatives of all the Latin American States members of the Commission agreed on the need to constitute a regional common market and approved the basic principles on which it should rest, including participation by all the Latin American countries interested, inclusion of the largest possible number of products, consideration of the inequalities in development that exist among the various countries, and an effort to achieve progressive harmonization of the instruments of trade policy in their relations with third countries.^{1/}

The countries of the southern region of Latin America signed the Treaty of Montevideo in February 1960, and thus took the first step towards establishing a Latin American common market. The Trade Committee, when it discussed the Treaty (Santiago, May 1961), asked the ECIA secretariat to continue working in the field of integration, in close co-operation with the agencies established by the Treaty. The Trade Committee at that time recognized that it should, at its next session, review the progress achieved

^{1/} Resolution 6 (II) of the Trade Committee.

in the implementation of the integration programme of the Central American common market and of the AIALC, and devote special attention to the relations between currently existing groups in the region and those countries that were not yet members of the groups in question.^{2/} The Economic Commission for Latin America adopted a number of resolutions at its last two sessions^{3/} asking the secretariat to study the problems and possible solutions encountered in the attempt to achieve regional economic integration. In continuing to devote special attention to problems of economic integration, the Trade Committee and the ECLA secretariat are complying with a mandate laid down many years ago by the Latin American Governments.

2. The common market as the goal of the Latin American countries

The aims laid down by the Trade Committee have been formally endorsed in the basic instruments of both the AIALC and the Alliance for Progress. In the preamble (and subsequently in article 54) of the Montevideo Treaty the Contracting Parties declare that they are "determined to persevere in their efforts to establish, gradually and progressively, a Latin American common market and, hence, to continue collaborating with the Latin American Governments as a whole in the work already initiated for this purpose". In the same vein, in the Declaration to the Peoples of America at Punta del Este the signatory States undertook to accelerate the integration of Latin America with the same aim of stimulating the economic and social development of the Continent, a process already begun through the General Treaty of Economic Integration of Central America and, in other countries, through the Latin American Free Trade Association, and to this end recommends, among other things, the establishment of effective relationships between the two groups.

^{2/} Resolution 11 (III) of the Trade Committee.

^{3/} Resolutions 208 (IX) on regional integration, 222 (X) on Latin American trade and integration, 227 (X) on economic integration and planning, 234 (X) on integration industries, and 242 (AC.57), adopted at the tenth session of the Committee of the Whole, on activities in the field of industrial development.

3. The experience gathered

More than three years have elapsed since these declarations, and the problem of implementing them has not yet been solved. However, during this interval AIALC has been able to make ample use of its tariff negotiation process, and has extended its membership to include nine countries, comprising the bulk of the population of Latin America. At the same time the Central American common market, which by 1966 will have achieved free trade among the member countries and a common external tariff, has shown the effectiveness of sub-regional agreements.^{4/} But above all solid bases have been established for further progress in integration, and a wealth of experience has been gathered. The AIALC countries now have a better knowledge both of each other and of their respective trade régimes. There has been a visible improvement in intra-area trade, which is close to the maximum levels reached in the years before the Montevideo Treaty was signed. There is a framework of preferences within which a progressive process of import substitution is taking place in respect of goods produced outside the area. In addition the AIALC countries have become more clearly aware of common problems that arise in practice, and of how they can be solved.

Nevertheless, the experience gathered shows that the commitments undertaken thus far under AIALC are not sufficient to achieve the aims that must be envisaged if integration is to serve as an instrument for development. This lesson of experience has brought forth many declarations by Governments and by persons of eminence expressing doubt regarding the possibilities of future progress with the existing methods, and the need for a new impulse to the integration movement. The work of the ad hoc Committee set up under AIALC resolution 75 (III) reflects similar misgivings.

^{4/} Some details on the functioning, progress and problems of this organization are given in the annex.

4. Need for a new impetus to the integration movement

The ECLA secretariat shares these misgivings, because it is convinced that at the present moment the revitalization of the integration process in Latin America is particularly necessary. The improvement of conditions for Latin America's external sector that may be expected from implementation of the principles agreed on at the United Nations Conference on Trade and Development will take some time to come about. This time-lag and other difficulties that may arise in the external sector make it all the more necessary to take decisive action within a regional framework in order to push ahead systematically with Latin America's integration process.

Any new commitment that represents a further step towards integration requires a political determination and unity of purpose even greater than those that made possible Latin America's common stand at the Conference on Trade and Development. But it must not be supposed that the difficulties in the way of such new commitments will be any easier to deal with at some future date than they are at present. Investment policy in the Latin American countries may follow a pattern in which only national markets are considered, little attention being paid to its place in a continental context. As a result, the pattern of production will tend to become fixed on the basis of compartmentalized markets. It is therefore a matter of urgency to establish a framework to discourage such a development and provide incentives for a better distribution of productive functions in Latin America. The specific commitments undertaken thus far under ALALC do not appear sufficient to achieve the desired development aims. This means that the Montevideo Treaty, which was a realistic approach to the problem of starting integration, must be constantly adapted to serve the ever more pressing needs of economic development.

5. The approach envisaged

It must always be borne in mind that the only viable form of integration in a developing continent is the establishment of a common market. This objective is fully recognized in the Montevideo Treaty, the Charter of Punta del Este, and many ECLA resolutions. As the ECLA secretariat is working

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on this basis, it is useful to recall some of the essential requirements of such a common market.

(i) It means not only the abolition of all barriers to imports, but also the establishment of fair conditions of competition within the market. It is essential that trade and tariff policy towards third countries be brought into line, and realistic exchange rates adopted. Moreover, the problems of distortion that arise from divergent fiscal and social policies will have to be dealt with.

(ii) The abolition of the barriers to trade is not in itself sufficient to give the various basic industrial sectors the dynamic impulse needed for the region's development, nor will it ensure an equitable distribution of the benefits between the participants. There must be institutional arrangements to encourage regional specialization and complementarity, and means to promote a harmonious development of the region as a whole.

(iii) In view of the situation with respect to agricultural production in Latin America, appropriate rules and procedures will have to be established governing trade in agricultural commodities.

(iv) Production cannot be organized and trade cannot move without the establishment of an adequate network of internal transport and communication.

(v) A common market must be so conceived as to maintain and improve the position of Latin American enterprise. As far as possible there should be a standardization of the legislation of the various countries on foreign investment, and other positive steps must be taken to strengthen Latin American enterprise.

(vi) If the common market is to be a key instrument for economic development, it cannot be based solely on the free play of economic forces. Consequently, in Latin America much more than among developed countries, integration requires common institutions endowed with the power to act effectively.

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In order to fulfil these requirements, a number of studies will have to be made. ECLA, ALALC and other organizations concerned with the question of integration have already begun this work. ECLA has initiated studies on the following subjects: prospects of integration in different sectors of the basic industries (section III); situation and prospects of agriculture in Latin America (section IV); and the transport situation (Section V). In addition, an extensive study has been undertaken in co-operation with the Latin American Institute for Economic and Social Planning with the aim of making a searching examination of every aspect of the role to be played by integration and its relationship with development, and thus determining the way in which integration should be incorporated into development programmes and policies.

In order to avoid duplication and to distribute the work in a more systematic way there should be closer co-operation between ECLA and the Latin American organizations that are concerned with economic matters and integration. Studies undertaken on such questions should be based on the same concepts and follow a plan of action compatible with the requirements of the different stages of the integration process. Many of these studies would need considerable time and resources. Moreover, it is impossible to wait until all the detailed studies are ready before taking short-term decisions, as that would involve the risk of being drawn into the usual vicious circle and thus bringing the whole process to a halt.

The inter-country negotiations on specific points that should follow the studies will very probably be long and difficult. This is obvious from the substantial disparities that exist in tariffs and other measures of equivalent effect applied among the different countries to all categories of products, the considerable differences in the legislation governing foreign investment and fiscal, social and agricultural policies, the monetary distortions, and the want of a regional outlook in national development planning. These difficulties, which are relatively much greater than those encountered in groups of developed countries undergoing integration, should be clearly recognized so that the next step towards a Latin American common market will be conceived in a realistic manner. In Europe, for instance, before commitments involving true integration were

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entered into, a high degree of de facto integration and industrial interdependence already existed and this facilitated the adoption of such commitments. Generally speaking, too, industry was accustomed to a certain amount of competition. And, what is particularly important, the adoption of over-all integration commitments was preceded by a phase of intensive economic co-operation that enabled substantial reductions to be made in the extreme types of restriction on intra-European trade, created the habit of co-operation and inspired confidence in the observance of the commitments assumed. In Latin America, on the other hand, intra-continental co-operation is still much more limited, in spite of ALALC and the Central American Common Market.

In view of these features peculiar to the problem of integration in Latin America, the ECLA secretariat is ascertaining in what areas it is particularly urgent for new measures and decisions to be adopted without unduly long investigation and complicated negotiations. With this in mind, the secretariat is attempting to draw up a body of measures to form the next state in the process of Latin American integration. These measures will be based on an evaluation of the results achieved by ALALC and the Central American Common Market and the points raised by member countries. The aim is to work out proposals that will both meet the needs of the Governments and possess an inner equilibrium, thus constituting a functional whole. Once the problem of the next stage has been solved, and the more limited commitments corresponding to it have been fulfilled, it is assumed that the conditions for defining and negotiating a further stage will have improved. The great problem of Latin American integration can only be dealt with by degrees, but the measures involved should be well thought out and systematically directed towards the achievement of the ultimate objectives.

The points which the ECLA secretariat has been considering for possible incorporation in a programme to cover the next few years include the following:

- (i). With a view to stimulating intra-regional trade, ways and means are being explored of making a more systematic reduction in the barriers to trade among the Latin American countries. Instead of aiming

at the complete elimination of these barriers, the objective during the first stage should be to make tariffs more reasonable and to agree on moderation in the application of over-all preferences, thereby creating new incentives for intra-regional trade. Care would have to be taken to solve the difficulties arising from differences in the conditions governing raw material supplies. Moreover, instead of causing a contraction in existing branches of industry, the commitments should make it possible for future increases in demand to be met by the more efficient producers.

(ii) In order to pave the way for the conclusion of sectoral and complementarity agreements providing for a more rapid elimination of trade barriers, special incentives of an institutional, financial and commercial nature will have to be devised, including measures intended to formulate and put into effect, during this state, sectoral agreements on specific basic industries. In particular, as has been suggested on more than one occasion,^{5/} a division should be taken on the advisability of establishing a Latin American Development Corporation.

(iii) In order to enable ALALC to attract all the Latin American countries, the situation of the countries in a less advanced stage of development should be defined and strengthened. A combination of institutional, financial and commercial measures could be used for this purpose. At the same time, an examination should be made of the conditions under which sub-regional agreements between countries with inadequate markets might be concluded.

(iv) As a further means of stimulating intra-regional trade, monetary and credit mechanisms will have to be considered together with the question of establishing a regional payments system, due regard being paid to the fact that countries which have already achieved convertibility cannot be expected to retrogress.

5/ See ECLA/OAS, Foreign private investment in the Latin American Free-Trade Area, United Nations Publication, Sales No.: 60.II.G.5; Integración económica de América Latina (OEA/Ser H.X.1, ES-RE°Doc. 3), chapter V, prepared for the IA-ECOSOC meeting at Punta del Este in August 1961; H. S. Perloff and Rómulo Almeida, Regional economic integration in the development of Latin America (OEA/Ser. H.X.4, CIES/345), prepared for the IA-ECOSOC meeting at Sao Paulo in November 1963; and ECLA, Towards a dynamic development policy for Latin America (United Nations Publication, Sales No.: 64.II.G.4.).

(v) Consideration should be given to strengthening the national market institutions. These should provide a balanced representation of national and Latin American interests. There is no question for the time being of seeking political integration, but rather of establishing more independent organs that could play a dynamic part in the process of integration and be capable of defining collective interests whenever the integration instrument had to be adapted to new needs. Such organs should also be empowered to make an objective assessment of the facts and see that the work programme drawn up in relation to the more long-range objectives was carried out according to plan.

6. Conclusions

Although the views of the ECLA secretariat have not yet crystallized, the work begun some months ago is already sufficiently far advanced for a report to be ready by the end of the year. The secretariat intends to discuss its ideas with experts on the different subjects; it will also keep in close contact with the other regional organizations, particularly ALALC, and act in co-ordination with them.

In undertaking this task, the ECLA secretariat has been encouraged by the statements made by the developed countries at the United Nations Conference on Trade and Development in relation to the regional integration of developing countries. Those statements reveal an increasingly clear recognition of the fact that developing countries are beset by special difficulties in their attempt to achieve integration, and cannot therefore be expected to conform to the rigid patterns followed in the developed part of the world. This new attitude will enable the Latin American countries to reformulate their integration programme in terms of economic soundness and political feasibility without being compelled to adhere to strict and preconceived international standards. By giving a fresh, realistic impulse to the integration process, the Latin American countries will furnish convincing proof of their willingness to help themselves. This would in turn facilitate the action and assistance required on the part of the developed countries, as regards both the integration process itself and the premises set forth at the Conference on Trade and Development.

III. INTEGRATED INDUSTRIAL DEVELOPMENT

1. Introduction

One way of making headway in economic integration is through sectoral integration within an over-all framework of integration and development. A Joint Programme has been set up in the ECLA secretariat, under the sponsorship of the Inter-American Development Bank (IDB), the Latin American Institute for Economic and Social Planning (ILPES) and ECLA, to explore the possibilities of regional integration in a number of industries: steel making, capital goods, chemicals, pulp and paper, non-ferrous metals, agricultural inputs and textiles.

This programme covers studies and research on industrial development carried out and financed by the three organizations, according to a programme of work periodically approved by them and implemented under the supervision of a director jointly appointed by the three sponsoring organizations. Broadly speaking, the aim of the Programme is to gather and analyse the data and criteria needed for the vigorous promotion of Latin America's economic integration in the sphere of industry, and to enable development plans at the country level to be revised in the light of the prospects and limitations associated with the integration of domestic markets.

These aims mean that the Joint Programme will have to prepare fairly comprehensive studies of several branches of industry, in each of which the possibilities and patterns of regional integration will be reviewed. Such studies, besides representing specific integration programmes, would serve as a basis for the preparation of proposals for investment in "integration industries", i.e., industrial projects linked to regional integration, without the necessity of a general agreement or convention in the branch of industry concerned. These projects would emerge from the sectoral studies and be submitted to the consideration of the Inter-American Development Bank (IDB) for promotion and financing. Furthermore, the criteria deriving from the sectoral studies, prepared from a regional standpoint, would constitute essential guidelines for each country's industrial programming activities.

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Thus, an attempt is being made to put into operation a mechanism for the systematic preparation of such studies and the compilation of technical and economic background data, without which the Latin American countries can hardly be expected to give the impetus necessary to the region's economic integration process.

In other words, the preparatory work for regional industrial integration is envisaged at two levels: the systematic preparation and compilation of technical and economic background data, and promotional activities proper. To that end, the results of the Joint Programme studies will be made available to the Latin American Free-Trade Association and the Central American Common Market.

2. Sectoral studies

The sectoral studies will deal with major branches of industry in groups of countries or in Latin America as a whole, taking into account the characteristics of each individual sector. In general, the studies will comprise an analysis of the existing market, an estimate of the future market (demand projections), a survey of Latin America's existing industry and the technical and economic conditions under which it operates, and an estimate of the development possibilities of the Latin American industry concerned. A study will be made, at the same time, of the availability of inputs, the predominant economies of scale in the industry, and so forth. Such sectoral studies, long a traditional feature of ECLA's activities,^{6/} should now take full account of the comparative advantages of each country and the possibilities of complementarity in respect to means of production in several countries, care being taken to indicate the development aims and policy of the industrial sector concerned, as worked out from a regional standpoint. Account should be explicitly taken of the case of the smaller countries, where merely static

^{6/} See, for example, the studies on the manufacture of industrial machinery and equipment in Argentina and Brazil (E/CN.12/629/Rev.1 and E/CN.12/619/Rev.1, respectively), machine-tools in Brazil (E/CN.12/633), the chemical industry in Latin America (E/CN.12/628/Rev.1), the textile industry in several Latin American countries (Chile E/CN.12/622, Brazil E/CN.12/623, Uruguay E/CN.12/691), etc.

consideration of comparative advantages may not be enough and some changes dictated by dynamic criteria will have to be incorporated.

The studies started to date cover the following branches of industry: (a) steel-making; (b) non-ferrous metals (aluminium); (c) chemicals; (d) pulp and paper; (e) machine-tools; (f) metal-transforming in general; and (g) textiles.

3. Steel-making

Work in this sector has centred mainly on the preparation of a study on the economy of Latin America's steel industry. The programme adopted for this work includes the following basic aims: (a) A brief review of the existing situation of the industry, and of the obstacles hampering the more effective utilization of investment therein and a faster production growth. To that end, comparisons will be made between plants in Latin America, and between these and other plants outside the region; (b) The presentation of examples, if possible based on figures of the various alternative possibilities for the integrated regional development of Latin America's steel-making industry during the next decade, and a comparison with the trend the industry is likely to follow if it continues to be restricted by highly protected markets in every country.

The report is now in the drafting stage and the description and evaluation of the principal plants and their manufacturing processes is nearly finished. Work is now under way on markets, investment in the existing steel industry and production costs of the main integrated plants.

4. Non-ferrous metals (aluminium)

A study on the aluminium industry was recently initiated, its purpose being to evaluate present and potential markets, and existing raw material and electric power resources. It is hoped to determine production costs in different areas of the region. For the present, the work is confined to an analysis of the demand for aluminium products in Latin America.

/5. Chemicals

5. Chemicals

Activities in this connexion have been mainly devoted to the preparation of a seminar on the chemical industry, scheduled to be held at Caracas, Venezuela, from 7 to 12 December 1964. The basic document of the seminar will be the study prepared on this sector by ECLA, with the addition of some more recent data.^{7/}

6. Pulp and paper

The data contained in previous pulp and paper studies for a number of Latin American countries are being revised and brought up to date. In addition, efforts are being made to obtain data on production capacity by country and by plant. Activities in this field will be extended to cover the timber industries.

7. Machine-tools

The research undertaken directly for the study on machine-tools in Argentina has now been completed. This study will be the second of a series, following the one on Brazil published earlier. The project covers other studies of the same kind in the rest of the machine-tool manufacturing countries.

8. Metal-transforming in general

The preliminary version of a study on Uruguay's metal-transforming industry is ready. Research in Venezuela has been completed and a first draft of the study entitled Un programa de sustitución de importaciones para el desarrollo de la industria mecánica is being prepared.

^{7/} See La industria química en América Latina (United Nations Publication, Sales No.: 64.II.G.7).

/9. Textiles

9. Textiles

The study on Colombia's textile industry was published recently.^{8/} The studies on Peru and Bolivia are about to be published, and those on Argentina, Paraguay and Ecuador are already in the drafting stage. Field work in Venezuela has begun. Once the country studies are completed, it is intended to use them as a basis for preparing a report on this industry's regional integration prospects. In addition, a study on the manufacture of textile machinery in Latin America is in course of preparation.

^{8/} La industria textil en América Latina. III. Colombia (United Nations Publication, Sales No.: 64.II.C/Mim.2).

IV. AGRICULTURAL STUDIES

1. Introduction

The integration of the agricultural sector in the Latin American countries raises special problems for which solutions must be found. The very large number of farms and plantations in existence, the marked differences in their individual productivity, and the relative resistance to change deriving partly from ignorance of the alternative possibilities for land use, are all factors that combine to make agricultural integration a highly complex and arduous task. Presumably, however, in view of the wide variety of climates and soils that the region embraces, it should be possible for some degree of specialization and complementarity to be achieved among the Latin American countries' agricultural sectors. Furthermore, the prospect of a great expansion of demand for agricultural commodities in the next few years, as a result of the rapid growth of the population and the rising trend of income, suggests that it will be necessary to make fuller use of the land at present under cultivation in all the countries of the region, so as to create an internal supply sufficient to prevent an inordinate increase in imports from outside Latin America.

2. Agricultural integration

The contribution made by agriculture to the gross product, to employment, and to the supply of food and raw materials, as well as the part it plays in the external sector, makes it too important an element of the economy as a whole to be excluded from the process of economic integration. This is why the ECLA secretariat has begun a detailed study of the possibilities, scope and strategy of agricultural integration at the regional level.

The first step in such a study will be to ascertain the present levels of consumption of the staple agricultural commodities and project probable levels over the medium and long terms. Similarly, the source of the supplies at present available in each country (domestic production and imports by markets of origin) must be determined, together with the presence or

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absence of land resources for the expansion of production. An inter-country comparison of unit yields and of prices paid to farmers (in comparable units of account) will make it possible to determine each country's competitive position vis-a-vis the other national economies of the region. An attempt will thus be made to establish, in general terms, the probable volume and direction of trade flows in respect of the agricultural commodities considered,^{2/} the extent to which imports from outside the region can be replaced by domestic production and the type of protection that will have to be given to the latter until it increases its ability to compete or until the indispensable changes are put into effect. Subsequently, priority will have to be given to consideration of the measures that should be introduced in the agricultural economies of the various countries, in order to enable them to compete on the open market. These may be classified in two major categories: (i) measures designed to improve productivity in fortuitously marginal areas; and (ii) changes in land use in areas that are definitely marginal. Obviously, the establishment of these two categories will entail more thorough research at the level of countries and areas. The conditions determining a specific level of productivity and production costs differ considerably from one area to another within a given country, and all the more from one country to another. But once the various existing production situations have been ascertained and the future position estimated, in relation to the expected growth of demand, it will be easier for the Governments of the Latin American countries to draw up a co-ordinated agricultural development programme, including both measures bearing on domestic production and trade commitments in respect of agricultural commodities.

3. Study on physical inputs in agriculture

Since agriculture is patently behind the times in many countries of the region, an over-all process of integration and intensified economic

^{2/} Wheat, maize, rice, beans, beef, sugar, coffee, cotton, cacao, wool, tobacco and butter.

development will entail the improvement of farming and the introduction of a new technology whereby productivity - per worker and per hectare - can be increased sufficiently for the agricultural sector to play a more active part in the development process in question. This involves, inter alia, more extensive use of certain inputs which could be produced in the region in the quantities required for the application of more up-to-date agricultural techniques. The fulfilment of this aim in economic conditions is largely contingent upon the possibilities for the integration and satisfactory location of the plants that will manufacture the inputs concerned. Hence the study of this highly specific problem is of the first importance.

Such a study is under way in several Latin American countries, its purpose being to determine the following points: (i) the size and characteristics of the existing market for fertilizers, pesticides, agricultural machinery and certified seed in the nine ALALC countries and Venezuela; (ii) the probable size of the market in five and ten years' time; (iii) domestic measures to encourage consumption of the inputs listed in each of the above-mentioned countries; (iv) measures to facilitate the reciprocal trade of these countries in such items; (v) the possibilities of installing factories to supply the additional demand and to substitute domestic production for extra-regional imports of these inputs, as part of the sectoral integration programmes within the over-all framework of integration and economic development.

The study will be completed by mid-1965, with the technical and financial support of the Inter-American Development Bank.

/V. TRANSPORT

V. TRANSPORT STUDIES

1. Introduction

A basic requirement of economic integration is undoubtedly the progressive development of a regional overland and maritime transport and communications system. Viewed as a whole, the existing regional transport system is confined, in practice, to sea-borne and, in some cases, inland waterway traffic, while international means of overland transport are scarce and carry a negligible proportion of trade, except in Central America.

It therefore seems that there is pressing need for a study aimed at defining in broad features a concerted and co-ordinated regional policy for the development of such transport and communications infrastructure as will meet the requirements of economic integration. The main purpose would be to lay down, within the context of integration, the broad outline for gradual development of a regional sea-borne, inland waterway, overland and air transport network. These general lines would be so devised as to meet future integration needs, and might perhaps serve as preliminary practical guidelines for Governments in their national transport programmes and their co-ordinated efforts to achieve regional integration.

Such a study should be carried out in close co-ordination with those on regional industrial and agricultural development and to the promotion of intra-area trade. The progressive development of an efficient regional transport system constitutes one of the chief factors in determining the rational location of new industries in Latin America, facilitating access to raw materials, and ensuring a more rational distribution of agricultural production. As regards industrial development, in particular, high transport costs frequently counteract the economies of scale which would be obtained by concentrating production in certain localities enjoying comparative advantages; furthermore, they cause less suitable sites to be chosen and production to be maintained on a relatively small scale.

2. Over-all

2. Over-all situation of national transport systems

An over-all study being carried out in co-operation with OAS on the over-all situation of Latin America's transport system is nearly completed. It includes a broad analysis of the present state of overland (rail and road), inland waterway and sea-borne transport, and of the plans and programmes for its modernization and development, drawn up and put into effect by Governments within the context of over-all economic development programmes. However, except in the case of maritime transport, the study approaches the problems mainly from the standpoint of domestic transport systems and national development. Once the study is finished, it is intended to focus attention in future on transport studies from the angle of economic and regional integration.

3. Maritime and air transport

ECLA has co-operated closely with ALALC in this respect and plans are afoot to undertake more detailed studies on maritime transport, especially in connexion with questions related to the Draft General Agreement on Maritime, River and Lake Transport, drawn up by the Advisory Committee on Transport of ALALC.^{10/} The studies on maritime transport will also take particular note of the discussions and recommendations on the subject by the United Nations Conference on Trade and Development.

It is proposed to co-operate with OAS in resuming the study on port problems and needs in Latin America and the corresponding estimate of investment required. This study was the subject of a resolution of the Meeting at Punta del Este, but could not be undertaken for want of funds. The improvement of port operating facilities is a vital factor if maritime transport is to be rationalized and freight costs reduced.

In addition, it seems a good moment to carry on with the studies and projects in respect of regional air transport, particularly as regards

^{10/} The difficulties and problems which have emerged in connexion with the adoption of the aforementioned Draft General Agreement caused the Permanent Executive Committee of ALALC to propose the convening of a meeting at ministerial level, in March 1965, to consider all questions arising from the conclusion of a regional agreement of this nature.

technical, operating and commercial co-operation between the air lines of the Latin American countries, inasmuch as this might well be a highly propitious sphere of regional integration.

4. International overland transport

As to international overland (rail and road) transport, a study is already under way on existing operating conditions in the area, as well as on the steps that should be taken to promote such transport with a view to its greater usefulness and to the expansion of regional trade, now negligible, by this means. Indeed, in spite of the present importance of maritime transport, it is impossible to imagine the acceleration of regional economic integration without the gradual development of a regional overland transport system, a point of vital importance to the Latin American countries at a less advanced stage of development.

5. Inland waterway transport

Similar considerations apply to inland waterway transport. The improvement and development of this means of transport is particularly desirable for regional integration and the economic development of extensive hinterlands of Latin America, which possess wide networks of navigable waterways that have never been properly utilized. It is proposed to carry out a study on the question.

/Annex

Annex

NOTES ON RECENT DEVELOPMENTS IN THE CENTRAL AMERICAN
COMMON MARKET

The Central American countries as a whole enjoyed a moderate economic expansion between 1960 and 1963. The reasons for this seem to have been, apart from the impetus provided by the regional integration movement, an increase in the volume of exports and an increase in external credits, the latter being the first sign of the effects of the Central American Common Market on the joint development process of these countries.

The broadening of the market available for manufactures through integration and the resulting better use of installed capacity contributed to a considerable increase in the growth rate of the economy as a whole. The trade in manufactures thus became the most dynamic element in the expansion of intra-area trade and represented nearly 75 per cent of trade transactions in the common market in 1963. Total intra-Central American trade in 1963 amounted to 66 million dollars, which represented an annual average increase of 26 per cent since 1960.

The common market is the final result of more than ten years of study and decisions by the Central American Government. Technical assistance was provided by the secretariats of ECLA and various specialized agencies of the United Nations. In 1960 the research work begun in 1952 was concluded, and the institutional framework of the Common Market was established by the conclusion of the General Treaty on Central American Economic Integration. In the two succeeding years the geographical scope of integration was completed by the accession of Costa Rica to the basic agreements; the regional agencies for directing the activities of the Common Market were established, and supplementary agreements were signed in accordance with the commitments undertaken in the treaties signed in 1960.

In 1963 the executive work involved in the application of the integration instruments began to increase, and the problems that arose in consolidating the Common Market were dealt with. Thus in addition to the strengthening of existing activities, there was an extension of the movement to new areas in the economic and social integration of Central America.

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The Central American Economic Council, the Executive Council and the permanent secretariat of the Treaty are the regional bodies responsible for the work involved in effecting improvements in the Common Market and interpreting the treaties.

The progress of the integration movement has given rise to a wide range of problems. Some relate to differences, dealt with as they arose, as to the origin of goods, renegotiation of duties and similar questions. More serious problems have also been encountered, requiring a more long-term solution. These include problems relating to the possible effects of free trade and uniform customs tariffs on government revenue. To offset such possible effects, that might perhaps hamper the progress of other public sector programmes, the Governments have been establishing new domestic taxes on consumption. This clearly shows the need to reconcile and improve national tax systems and make tax collection more efficient. Similarly, the Governments have been studying more flexible means of renegotiating and accelerating the application of standard import charges. Another problem is the competitive nature of agriculture in the Common Market countries; the aim is to think in terms of production by area instead of by country, and as a first step an attempt is being made to overcome, through co-ordinated programmes of price stabilization and storage facilities, the problems arising from the existence of differences in the prices of the main consumer commodities.

In June 1964 the Central American Governments asked ECLA, as the secretariat of the Economic Co-operation Committee, to evaluate the results of the establishment of the Common Market, and analyse existing activities and future prospects for the integration programme. This evaluation will be discussed at the Committee's ninth session, to be held in 1965.

There now follows a summary of recent developments in Central American economic integration.

1. Free trade

The Central American free trade area is now in its fourth year of operation. Free trade extends to 1,080 tariff items; 196 items are still subject to special interim régimes, and of these 14 items will

/be automatically

be automatically transferred to the free trade régime in 1965, and 89 items in 1966. During these two years 70 sub-items will also be transferred, but for this purpose the Governments will first have to equalize the import duties and charges on certain raw materials, or will have to sign special agreements on the production, supply and area trade for certain goods, particularly grains and petroleum products. By 1966 only 23 items will still be subject to restrictions, for an indefinite period, mainly as a result of international agreements or monopoly situations. This applies to such products as coffee, cotton, sugar and certain alcoholic beverages.

2. Common tariff

As a result of the Protocol to the Central American Agreement on the Equalization of Import Duties and Charges signed in August 1964, the Central American tariff of import duties and charges contains 1,250 sub-items for which duties have been agreed multilaterally. This means that standard duties have been agreed to for 98 per cent of the sub-items in the Standard Central American Tariff Nomenclature. Before equalization can be achieved for the remaining 26 sub-items, or at least for most of them, additional measures will have to be adopted, outside the tariffs themselves, because the products concerned are subject to charges that are part of a specific programme, or represent a revenue item of special importance to one or more countries.

During the negotiations on tariff equalization, and the renegotiations that began in 1963, the aim has been above all to obtain immediate acceptance of the common duty. Only about 15 per cent of the items have been made subject to progressive equalization, and the period allowed for arrival at a standard duty may not exceed five years.

3. Tariff policy

The Central American Governments signed the Uniform Customs Code on 13 December 1963. This completed the structure of uniform customs legislation required for the Common Market, and guarantees equal treatment for goods imported from the rest of the world into any Central American country. The draft regulations for the Code, drawn up in the first quarter of 1964,

/are under

are under revision, and the aim is that they should be submitted to the Governments in the near future for examination and, if possible, for signature.

In addition the preliminary draft of a common tariff legislation was prepared, to supplement the provisions contained in the Central American schedule of import duties and charges. This would ensure the equal application - and thus the uniformity - of the customs tariff.

4. Industry

Trade in manufactures between the Central American countries increased by 30 per cent a year between 1960 and 1963, compared with 1.4 per cent between 1950 and 1955 and 26 per cent between 1955 and 1960. Trade in industrial products of Central American origin is estimated at 43 million dollars for 1963. Regional integration has made possible an expansion of the capacity of existing plants, while the increase in investment in new industries as a result of the Common Market is estimated at about 65 million dollars.

There has been in Central America a basic transformation of the structure of manufacturing and of the whole pattern of industrialization, although this development is still at its first stage. In addition to the traditional branches - the food, textile, tobacco, beverage, clothing and wood products industries - fertilizer, petroleum refining and sodium-chloride/insecticide industries have been established. Specific projects are under way for the production of glass containers, sheet glass, rolled steel, welded tubes and electric lamps, and studies are being made on the possibility of establishing a steel industry.

All this is largely the result of the efforts made by the Central American Governments during the last four years to join in establishing specific conditions to stimulate industrial investment. In addition to forming the Common Market, they began during this period to apply an industrial integration régime, they drafted an agreement on uniform fiscal incentives, they designed a special system of industrial promotion, and established a Central American financing agency.

/In February

In February 1964 the Governments formulated principles on which to base a Central American industrialization policy, with due regard for the balance of development between the individual countries. These principles reflect the need to establish programming and promotion at a Central American level for the enterprises that can accelerate the industrial process and have a multiple effect on the productive system. These principles also take into account the desirability of going forward with programmes of specialization and modernization in existing industries.

In August 1964 the Central American Governments undertook to discuss and adopt a protocol on assembly industries within a period of not more than six months. The first draft will be submitted to the Executive Council in November.

5. Crop and stock farming

Trade in agricultural commodities within the Central American Common Market increased by 36 per cent between 1961 and 1962, although restrictions are still applied to most of the primary commodities for domestic consumption and to the traditional export items, trade in which rose to 25 million dollars in 1962. The only tariff headings still awaiting equalization within the total number of sub-items corresponding to agricultural commodities are wheat and wheat flour.

A price stabilization plan for primary commodities and a plan for building a regional network of silos and other storage and preserving facilities are being put into operation, and the working capital required to finance surpluses is being built up.

The policy of regional co-ordination has been initiated precisely in respect to one of the most important issues, that of prices at the producer's level. During 1963 and 1964 progress has been made in fixing uniform prices, particularly for staple items in the diet of the Central American people. The price levels for each year are determined annually by the development and stabilization agencies, and in 1963 a committee was set up to co-ordinate marketing and price stabilization in the area.

As part of the same policy, efforts have been made in 1964 to bring about the expansion of grain storage capacity and it was decided to double

/the existing

the existing capacity of 100,000 tons in the next six years. It is calculated that the present figure can be increased by 60 per cent in the immediate future. The estimated cost of construction and expansion is nearly 10 million dollars, and an additional sum of nearly 5 million dollars will be required for the purchasing programmes.

6. Electric power

Activities in this sector have mainly been concentrated on exploring the possibilities of interconnecting electric power systems and of joint water resources development.

The first project that was studied related to Honduras and El Salvador, and was approved in principle by the competent authorities in 1963. The feasibility and financing studies have now reached their final stage, and a final decision is hoped for before the end of the present year. This joint project is expected to result in a net saving of 30 million dollars for the two countries, as compared with their individual plans.

The study on interconnexion between the power systems in the border zones of Panama and Costa Rica is at much the same stage, and is expected to reduce investment costs by about 9 million dollars. In 1963 authorization was given to proceed with the studies up to the phase of feasibility and financing, and they are now forging ahead with the financial assistance of the United Nations Special Fund. These studies are expected to be finished by July 1965.

In addition, a study is being concluded on the interconnexion of the electric power networks in Nicaragua and Costa Rica, and will be submitted to the specialized national bodies for consideration towards the end of the present year. From the preliminary evaluation it seems likely that the projected investment can be reduced by 35 million dollars and that a cumulative economic benefit of 30 million dollars will be obtained.

The studies on the interconnexion of the Guatemalan electric power network with those of El Salvador and Honduras are scheduled for completion in 1965, together with a group of projects on some border zones.

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The Central American Governments have decided to supplement these interconnexion projects by an over-all evaluation of water resources in the area. The first stage of the programme consists of a project to establish a network of hydrometeorological and hydrographic stations for a total cost of 6 million dollars. The project was approved in 1963, and has now been placed before the United Nations in the hope of obtaining funds to defray part of the cost and to put it into effect in 1965.

7. Transport and communications

Work is proceeding on the Central American road network in order to facilitate intra-area trade. Some roads are being built or improved and others are under study or in course of financing. The network approved by the Governments in September 1963 consisted of thirteen roads costing 73 million dollars in all. Studies on road regulations and services are being concluded for presentation to the Governments at the beginning of 1965 and are aimed at facilitating the flow of goods traffic between the different countries.

Among the studies currently promoted by the Governments, special mention should be made of the study on the present transport situation undertaken by the Central American Bank for Economic Integration and those being made on ports and railways with the aid of the United Nations Special Fund.

As regards air transport, a Central American corporation has been formed to improve conditions, and plans are afoot to set up a Central American air line which would mean a considerable saving in equipment and administrative expenses.

In May 1964 the Governments signed a draft agreement to establish a regional telecommunications system involving an investment of nearly 7 million dollars. At the present time, consideration is being given to the possibility of adapting the proposed network to a more general type of system which would allow for interconnexion with the rest of the continent.

8. Monetary and financial policy

The Central American Bank for Economic Integration entered into operation a little over three years ago. Up to 20 August 1964 it effected seventy-one loan transactions amounting to 18.6 million dollars, of which 92 per cent were in the form of investment loans and the remainder intended for pre-investment studies. It also approved in principle five loans to a value of 29 million dollars for infrastructural works.

On 25 February 1964 the central banks signed an initial agreement establishing the bases of the Central American monetary union, and providing for the monetary, exchange and credit policies of the different countries to be co-ordinated and brought into line as part of the gradual movement towards the formation of a monetary union.

As a first step, the central banks set up a multilateral system of compensation known as the Central American Clearing House, which entered into operation in October 1961 and is now a subsidiary organ of the monetary union. The total volume of compensatory transactions effected up to 31 April 1964 amounted to more than 100 million dollars, their monthly average being 2 million dollars during the first half of 1962 and 6 million in each of the first four months of 1964. It is calculated that approximately 90 per cent of the payments in respect of intra-area visible trade have been made in local currency.

In September 1963, the central banks of the Central American countries and the Bank of Mexico signed a special agreement on compensatory payments which is currently in force.

9. Planning

The central planning units of each of the Central American countries, with the assistance of the Joint Programming Mission for Central America, are completing the diagnoses of the economy and the over-all projections by which the formulation of sectoral programmes and specific projects for 1965-69 will be guided. In accordance with the decision taken in 1962 by the Central American Governments to promote the formulation of co-ordinated national development plans with a view to the eventual preparation of a single plan for the whole area, all the countries have adopted the technique of performance budgeting in 1964 in order to make it easier for them to implement and control their plans in future.