



UNITED NATIONS
ECONOMIC
AND
SOCIAL COUNCIL



GENERAL
E/CN.12/483
10 July 1957
ENGLISH
ORIGINAL: SPANISH

ECONOMIC COMMISSION FOR LATIN AMERICA
Santiago, Chile

ECLA ACTIVITIES RELATING TO PAYMENTS AND A
REGIONAL MARKET IN LATIN AMERICA

Report by the secretariat

TABLE OF CONTENTS

	<u>Page</u>
Preliminary note	v
I. Outline of work carried out and under way	1
1. Introduction	1
2. The Trade Committee	2
3. Trade in traditional commodities	6
4. The European common market	8
II. Payments system	10
1. Transition towards a multilateral system	10
2. Central Banks Working Group	12
(a) Standard payments agreement	12
(b) Operational system for payments agreements	13
(c) Exchange of comparable data	13
(d) Technical study of the multilateral system	14
3. Future phases of the work	15
III. Regional market	16
1. Resolutions adopted by the Trade Committee	16
2. Justification of the regional market	16
3. Promotion of intra-regional trade and import substitution	18
4. Some ideas on the regional market	19
5. Regional market expert group	20
6. Importance of studies of industrial sectors	23
7. First session of the Expert Group	25
 Annexes	
I. Report submitted by Committee I at the seventh session of the Economic Commission for Latin America	31
II. Resolutions adopted	46

/III. Organization

	<u>Page</u>
III. Organization of activities relating to trade undertaken by the Economic Commission for Latin America	56
Note on ECLA's activities to promote inter-Central American trade and the economic integration of the area	58
IV. Brief chronological review of ECLA activities relating to inter-Latin American trade	61

PRELIMINARY NOTE

At its seventh session, held at La Paz, Bolivia, from 15 to 29 May 1957, the Economic Commission for Latin America adopted resolution 117(VII) (E/CN.12/458), the text of which is as follows:

REPORT ON PAYMENTS AND THE REGIONAL MARKET TO GOVERNMENTS
AND THE ECONOMIC CONFERENCE OF THE ORGANIZATION OF
AMERICAN STATES
(E/CN.12/458)

The Economic Commission for Latin America,

Considering:

(a) That, in August 1957, an Inter-American Economic Conference, convened by the Organization of American States, is to be held in the city of Buenos Aires;

(b) That one of the items on the agenda for this conference is the "promotion of inter-Latin American trade";

(c) That ECLA has made considerable progress in this field through its Trade Committee, the Central Banks Working Group on a Multilateral Payments System, and several studies carried out by the secretariat;

(d) That, in conformity with resolutions 31(IV), 70(V), 106(VI) and 107(VI), on co-operation and co-ordination of the work of ECLA and the Inter-American Economic and Social Council in their respective spheres of activity, it is highly advisable to avoid duplication of effort or of expenditure;

(e) That, consequently, it is from every point of view desirable that a complete report on the work carried out and scheduled by ECLA in the same field up to the date of the aforesaid conference be presented to the countries participating therein,

Decides that, for purposes of information, the ECLA secretariat shall transmit to the secretariat of IA-ECOSOC for the aforesaid Economic Conference of the Organization of American States, and, in advance, to the Governments of the countries participating therein, a full report on the studies carried out, under way or scheduled up to that date in relation to the problem of payments and the possibility of creating a regional market in Latin America, with a view to co-ordinating the efforts of ECLA and IA-ECOSOC and preventing the duplication of their activities;

Declares that it would view with satisfaction any co-operation that the secretariat of IA-ECOSOC might extend to the ECLA secretariat in proceeding with the studies on inter-Latin American trade.

/Pursuant to

Pursuant to this resolution, the secretariat has prepared the present report outlining the work on the problems in question carried out since 1950 and at present under way. The annexes contain all the resolutions on inter-Latin American trade adopted by the Commission at its seventh session, together with the report of the Rapporteur of Committee I, which gives an account of the proceedings and of the conclusions reached in the course of the discussions. An outline of the organization of ECLA's work in the field of trade, and a chronological review of the most important activities undertaken, are also appended. In addition, a separate document is being distributed for informative purposes, i.e., the Report submitted to the Trade Committee by the Central Banks Working Group on a Multilateral Payments System (E/CN.12/C.1/WG.1/5), which is the outcome of the session held by the Group in question at Montevideo, Uruguay, from 29 April to 10 May 1957. *

The ECLA secretariat has the honour to submit the information assembled in these documents to the Governments participating in the Inter-American Economic Conference at Buenos Aires and to the secretariat of the Inter-American Economic and Social Council, and takes the present opportunity of expressing the hope that this material will provide adequate evidence of the importance invariably attached by the Commission to studies on inter-Latin American trade, of the considerable effort that it has long been and still is making in this connexion, and of the support given by the delegations present at the seventh session to the work of the ECLA Trade Committee and of the agencies in which the member Governments participate. The pertinent resolutions adopted at La Paz are in themselves sufficient proof of the Governments' interest, and their recommendations constitute the best incentive to the secretariat's endeavours.

* For further information, see the study entitled Inter-Latin American trade: Current problems (E/CN.12/423), United Nations publication, Sales No.:1957.II.G.5, which comprises the report of the first session of the Trade Committee and the studies discussed on that occasion.

It is the secretariat's belief that this report, submitted to the Inter-American Economic Conference in conformity with the express instructions of the member Governments at the session in La Paz, may contribute to a better understanding of the problems of inter-Latin American trade, besides calling the attention of the Governments represented at the Buenos Aires conference to the work carried out in this field by ECLA and the subsidiary agencies specifically created to deal with such questions. In transmitting the report to the secretariat of the Inter-American Economic and Social Council, ECLA is merely reaffirming its traditional desire that the activities of the two organizations be conducted on a basis of co-operation and co-ordination.

/I. OUTLINE

I. OUTLINE OF WORK CARRIED OUT AND UNDER WAY

1. Introduction

In compliance with a resolution of the Economic Commission for Latin America, the secretariat is engaging in a series of activities relating to inter-Latin American trade. The various studies on international trade - some of a theoretical nature and others pursuing more immediate ends - that have been presented at successive sessions of the Commission bear witness to the secretariat's unfailing interest in the subject. Nor could it be otherwise, in view of the pre-eminent part played by foreign trade in the economic development of Latin America. The work that lies ahead of the ECLA Trade Committee will undoubtedly be facilitated by the light shed on such problems in the studies already carried out.

Observation of the circumstances attending Latin America's economic development in recent years, particularly as regards the external vulnerability of the economies of the region, is progressively strengthening ECLA's conviction of the urgent need to promote inter-Latin American trade. The only way of ensuring a steady flow of supplies to satisfy future requirements of intermediate products and capital goods, vitally important as they are in the present phase of increasingly intensive industrial expansion, is by means of a greater effort to produce these essential goods within Latin America itself. Such an effort, however, entails the undertaking of industrial activities which call for complex techniques, high capital density and large markets.

The difficulties thus arising can only be overcome by the expansion of inter-Latin American trade and the more complete integration of the region's economies, through co-operative effort in two directions. One target is the gradual liberalization of the bilateral payments system; the other, the organization of a regional market. A number of obstacles will undoubtedly have to be surmounted before these objectives can be attained. Nevertheless, the interest displayed in this connexion by the Governments members of the Commission at its last session seems to warrant the belief that results will ultimately be achieved which will benefit both the Latin American economy and the world as a whole.

/There is

There is no reason why a regional market or payments agreements should have an adverse effect on trade between the Latin American countries and the great industrial centres, since the factor that determines the volume of such trade is Latin America's capacity to import, and this would not necessarily decline with the growth of intra-regional trade. The structure of Latin America's imports will no doubt undergo a change, in the sense that a larger proportion will be represented by the more complex types of capital goods, brought in to meet the demand created by increasing industrialization. The crux of the problem lies in the fact that if the regional market is not established, each country will attempt to reach a new and more complicated stage of the import substitution process on the basis of its own resources, with all the attendant drawbacks deriving from the inadequate size of the various national markets.

2. The Trade Committee

The most recent antecedent for the activities of the Economic Commission for Latin America in connexion with the promotion of inter-Latin American trade dates back to the sixth session held at Bogotá in August-September 1955. In a resolution adopted at that time,^{1/} the Commission set up a Trade Committee, on which all the member countries were represented, for the purpose of "intensifying inter-Latin American trade - without prejudice to the expansion of trade with other regions and mindful of the fundamental necessity of increasing over-all world trade - through a solution of the practical problems which hamper or delay such trade and the preparation of bases to facilitate trade negotiations".

The secretariat had carried out a series of studies laying the necessary foundations for an objective appreciation of the inter-Latin American trade situation,^{2/} on which the Bogotá resolution recommended that any specific measure to organize and promote such trade should be based.

^{1/} Resolution 101(VI) (E/CN.12/410).

^{2/} The most important of these are Study of the prospects of inter-Latin American trade (southern zone of the region) (E/CN.12/304/Rev.2), United Nations publication, Sales No.: 1953.II.G.4, and Study of inter-Latin American trade (E/CN.12/369/Rev.1), United Nations publication, Sales No.: 1956.II.G.3.

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In these studies a comprehensive picture of the field already covered by the bilateral trade system in Latin America and of the motives that had determined the adoption of such a régime was presented for the first time. The bilateralism in question had been forced upon a number of Latin American countries by a set of adverse circumstances, outstanding among which was the shortage of convertible foreign exchange in the region. The introduction of the system represented a means of protecting traditional intra-regional trade and preventing it from progressively contracting. It was therefore the effect and not the cause of the existing trade difficulties, especially where payments are concerned.

Nevertheless, this trade system has the serious drawback of obliging every country with a heavy or chronic deficit in its bilateral accounts to take discriminatory action against imports from the creditor country and to confine the volume of trade within the limits permitted by its own exports. Another implication is the more or less compulsory inclusion in trade transactions of commodities whose real prices are not competitive. Over-pricing becomes inevitable, and this practice is aggravated by the efforts made to even up imports and exports in each bilateral channel.

It was to discuss the persistent disequilibrium of which the system of bilateral accounts was a symptom and to seek possible solutions that the Trade Committee met for the first time.^{3/} Preliminary studies of the items on the agenda were prepared by the secretariat and an ad hoc group of experts which it had appointed to visit the seven Latin American countries playing most part in intra-regional trade.^{4/}

It became clear from the discussions at the first session of the Trade Committee that the Latin American countries were acutely aware of the need to devise specific formulae whereby inter-Latin American trade

3/ The first session of the Trade Committee was held in Santiago, at the headquarters of the Commission, from 19 to 29 November 1956. See the relevant report in the document entitled Inter-Latin American trade: Current problems (E/CN.12/423), United Nations publication, Sales No.: 1957.II.G.5.

4/ See in particular Payments and Trade in Latin America (E/CN.12/C.I/3); Inter-Latin American commodity trade in 1954 and 1955: Situation and prospects in 1956 (E/CN.12/C.I.5) and Payments and the regional market in inter-Latin American trade (E/CN.12/C.I/4), all of which are included in the document cited in footnote 3 above (E/CN.12/423).

/might be

might be gradually steered in the direction of multilateralism. The urgency of this need was all the more apparent, inasmuch as particularly significant developments were taking place at the time. In the first place, there were signs of incompatibility between the exchange reforms introduced in several countries and the conduct of intra-regional transactions through the existing bilateral channels, with the consequent unfavourable effects on the volume of trade. Secondly, Latin America's trade with Europe was taking a marked turn towards multilateralism, through the limited-convertibility systems known as the "Hague Club" and the "Paris Club", in which Brazil and Argentina, respectively, were associated with the most important of their European customers. As a preliminary step towards the subsequent adoption of more far-reaching measures, it was felt that it might be possible to revise and, up to a point, to standardize the various payments agreements in force in Latin America, with a view to facilitating the establishment of a system of voluntary transfers of balances among the clearing-accounts countries.

As a guide to the Trade Committee and the secretariat in their future activities, a resolution was adopted inviting "the Central Banks, or, secondarily, the appropriate monetary authority in those Latin American countries that maintain bilateral agreements among themselves, to set up a Working Group which would study the possibilities of gradually establishing a multilateral payments régime and would suggest the measures best calculated to achieve that end".^{5/}

The Central Banks Working Group on a Multilateral Payments System recently held its first session, at which several studies presented by

^{5/} Resolution 1(I) (E/CN.12/C.I/8).

/the secretariat

the secretariat were analysed.^{6/} The Group adopted resolutions of supreme practical importance for the purposes of gradual transition from the present strict bilateralism to a multilateral system. Some further details of these resolutions will be given later.

The measures that are thus being applied to liberalize trade through the introduction of a multilateral system for the settlement of balances are also aimed at establishing conditions which will ultimately favour the building-up of a regional market in Latin America, a project to which thought has already been given by the Trade Committee. In order that this complex question might be carefully considered, the Trade Committee, acting on a recommendation of the ad hoc expert group appointed by the secretariat to study inter-Latin American trade and payments problems,^{7/} decided to request the secretariat to carry out preliminary studies and convene a Regional Market Expert Group to deal with the matter in collaboration with its own staff.^{8/} The function of this Group of Experts, which would have at its disposal background data provided by the secretariat, would be to define the characteristics of the regional market, study its possibilities and projections and submit recommendations to the Trade Committee on basic principles and procedures for its establishment. The secretariat studies are already under way and a detailed report on them is contained in the present document.

^{6/} The session was held at Montevideo from 29 April to 10 May 1957, and was attended by representatives of the Central Banks - or equivalent authorities - of Argentina, Bolivia, Brazil, Chile, Colombia, Ecuador, Paraguay and Uruguay, these being the Latin American countries among which bilateral payments agreements are in force. See the Report submitted to the Trade Committee by the Central Banks Working Group on a Multilateral Payments System (Seventh session, Conference Room Paper No.1). The following documents were presented at the meeting: Compensation of balances in inter-Latin American trade (E/CN.12/C.I/WG.1/1); Registration of operations transacted through inter-Latin American clearing accounts and exchange of comparable data (E/CN.12/C.I/WG.1/2); and Bases for a draft standard agreement on a payments régime (E/CN.12/C.I/WG.1/3). All these studies are reproduced as annexes to the document Progress report by the secretariat on the work of the Trade Committee (E/CN.12/439), presented at the seventh session in La Paz.

^{7/} See "Payments and the regional market in inter-Latin American trade", in Inter-Latin American trade: Current problems, *op.cit.*, pp. 93 et seq.

^{8/} See resolutions 2(I) and 3(I), respectively.

At its seventh session, the Commission adopted the resolutions approved at the first session of the Trade Committee in relation both to payments and to a regional market,^{9/} took note of the results achieved at the first meeting of the Central Banks Working Group ^{10/} and recommended that the secretariat should continue and intensify, along the lines already laid down, the studies and activities necessary for the attainment of the ends pursued with respect to the orientation and expansion of trade in Latin America, as well as to the building-up of a regional market.

In this connexion, mention must also be made of ECLA's work in Central America, where it has collaborated with the Governments of the area in the Central American Economic Integration Programme, based mainly on the expansion of trade among the countries concerned and the creation of a regional market or free trade zone in Central America. In this direction definite progress has already been achieved.^{11/} The experience that ECLA has acquired in the course of its active participation in the programme in question is extremely valuable.

3. Trade in traditional commodities

Trade in those commodities - natural products, raw materials and foodstuffs - which constitute a traditional part of the region's commerce is also attended by difficulties of its own. The secretariat has for some time been carrying out a series of studies aimed at ascertaining the nature and scope of these problems.^{12/}

^{9/} See resolutions 115(VII) and 116(VII) respectively, in Annex II of this report, as well as the Report of Committee I in Annex I. For general reference, cf. Annual report to the Economic and Social Council covering the period 15 May 1956-29 May 1957 (E/CN.12/451).

^{10/} The secretariat will submit these results to the consideration of the Trade Committee at the latter's second session.

^{11/} See Central American economic integration: Development and prospects (E/CN.12/422), United Nations publication, Sales No.: 1956.II.G.4.

^{12/} Apart from the relevant chapters in the studies cited in footnote 2, attention should be drawn to "Inter-Latin American commodity trade in 1954 and 1955: Situation and prospects in 1956" in Inter-Latin American trade: Current problems, op. cit., pp. 49 et seq., on which the Committee's discussion of this topic was based.

The obstacles to the intensification of intra-regional trade in traditional commodities are not as a rule constituted by the inadequate output or low productivity of the activities concerned, as in the case of the manufactured goods which it is proposed to include in the regional market, but by certain difficulties hampering the expansion of trade. They are mainly related to exchange, quantitative and administrative restrictions, to the under-quotations of units of account and the consequent practice of over-pricing the products negotiated, to the frequently prejudicial intervention of state enterprises and monopolies in commodity trade and to the sense of insecurity deriving from the short duration of the bilateral agreements.

The Trade Committee discussed the total or partial removal of such obstacles, and in resolution 4(I) recommended to Governments, inter alia, that they should endeavour to pursue a policy of gradual liberalization with respect to traditional commodities, that such products should be marketed at international prices and on terms similar to those prevailing for the region's trade with the rest of the world and that, as far as possible, administrative procedures should be facilitated and certain State import or export monopolies eliminated. In the same resolution, the Committee requested the secretariat to continue carrying out studies on this aspect of trade and to extend them to other commodities.

At its seventh session, the Commission took note of the work of the Trade Committee and of the above-mentioned resolution, and also recommended the secretariat to "continue and intensify its studies on inter-Latin American trade, principally with a view (i) to suggesting measures whereby the aforesaid structural disequilibria in the balance-of-payments situation of some Latin American countries may be remedied, (ii) to expanding trade both within and outside the region at increasingly high levels, and (iii) to expediting the transition towards greater liberalization of trade and a multilateral payments system".^{13/}

^{13/} Resolution 119(VII) (E/CN.12/460).

4. The European common market

As has already been pointed out, the introduction of a compensatory payments system and the establishment of a regional market in Latin America will not militate against the region's increasing participation in the world market, since the industrialization and economic development of a given area have never resulted in a reduction of its trade with the rest of the world. On the contrary, such trade is likely to grow in consequence of the expansion of intra-regional commerce and of Latin America's productive activities on the basis of a sound multilateralism open to competition.

However, there are difficulties in the way of an increase in Latin America's exports to world markets, arising from the course taken and the characteristics displayed by the economic development of other regions, and from specific events in this field, outstanding among which is the creation of the European common market.^{14/} The possible repercussions on Latin America's commodity exports and capital imports that might result from the incorporation of overseas territories, on a preferential basis, in the European common market were provisionally analysed in a recent document.^{15/} The Commission discussed this problem at the seventh session, and in resolution 121(VII) recommended to the secretariat that it continue to observe closely the economic integration of Europe and other areas, and that it keep the member Governments supplied with the relevant information. A further recommendation was that the secretariat should carry out studies, on broad lines, on world market prospects for Latin American primary commodities, taking into consideration in particular the consequences that may arise from the European common market and from other similar projects.

^{14/} This problem was previously analysed by the secretariat in a document prepared in collaboration with the Economic Commission for Europe and the United Nations Food and Agriculture Organization, viz. Study of trade between Latin America and Europe (E/CN.12/225), United Nations publication, Sales No.: 1952.II.G.2.

^{15/} See Note by the secretariat on the possible repercussions of the European common market on Latin American exports (E/CN.12/449 and Add.1).

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The secretariat's current efforts in this field are directed not only towards the revision and amplification of the above-mentioned document but also towards the continuance of its studies on the world market position for Latin America's primary commodities.

/II. PAYMENTS

II. PAYMENTS SYSTEM

1. Transition towards a multilateral system

The normal outcome of a multilateral trade and payments system is an increase in the effective yield accruing from foreign transactions; such a system therefore helps to raise the standard of living and to expedite economic development.

Nevertheless, the introduction of multilateralism in inter-Latin American trade is impeded by payments difficulties, of which the most serious is the shortage of convertible currency in the region. This problem can be largely solved by the establishment of a multilateral clearing mechanism. For such a device to function satisfactorily, the participating countries would have to be prepared to apply a series of co-operative measures, which would include equal quotations for units of account, liberalization of their reciprocal trade, acceptance of more severe competition, and the gradual stabilization of each country's internal economy. First and foremost, they would have to be willing to adopt, in consultation and by agreement with the other countries concerned, such monetary and exchange measures as were necessary to preserve the balance of payments within the region, without affecting internal employment levels.

Even if these premises are fulfilled, certain structural features of the domestic economy and reciprocal trade of the Latin American countries enhance the difficulty of establishing, over the short term, an automatic system for the multilateral compensation of balances on such a pattern, for instance, as is exemplified by the European Payments Union. The lack of diversification in the intra-regional trade pattern, and the marked year-by-year fluctuations in the volume of such trade and the balance deficit or surplus between each pair of countries, set limits to the possibilities for multilateral compensation.^{16/} A careful analysis of the

^{16/} This basic aspect of the problem of inter-Latin American trade has been continuously studied by the secretariat. See in this connexion the following documents: Study of Inter-Latin American trade, op.cit., chapter V; "Payments and trade in Latin America" (especially chapter II, pp.31 et seq.) in Inter-Latin American trade: Current problems, op.cit.; and Compensation of balances in inter-Latin American trade, op.cit., subsequently included (as Annex I) in the Progress Report by the secretariat on the work of the Trade Committee, op.cit.

/channels through

channels through which inter-Latin American trade is conducted and of the geographical distribution of the balances concerned reveals how difficult it is to adopt the system under consideration, chiefly because the original causes of the proliferation of bilateral agreements still exist, preventing a rapid and easy transition towards multilateralism. These causes are of a structural nature, springing mainly from the marked and persistent disequilibrium in the individual positions of the Latin American countries. The absolute and relative magnitude of such disequilibria would restrict the possibilities of putting too ambitious a scheme for multilateral compensations into effect.

The introduction of a completely multilateral system must be approached from a dynamic point of view, and in relation to the promotion of trade. Only by closer co-operation between the interested countries in matters of trade policy would it be possible to remove the underlying cause of the disequilibria referred to. Hence a gradual course of procedure is advisable, whereby, through measures of trade and exchange policy, the conditions most likely to favour the operation of a multilateral compensation system may be progressively created, while at the same time the system itself is being put into practice stage by stage. In other words, the device by which the problem could be solved would be the adoption of a clearly-defined trade policy, suited to the specific circumstances of the Latin American countries and designed to permit the expansion of their intra-regional exports - especially in the case of those which have regularly shown debit balances in their inter-Latin American trade - as well as to embrace a gradual process of transition towards multilateralism.

The probable features of a trade policy thus adapted to Latin American conditions are not as yet very clearly discernible, and will largely depend on the experience acquired during the forthcoming stages of the work. Patently, however, all efforts directed towards planning the structure of a regional market and expanding trade in traditional commodities will form part of the policy in question.

2. Central Banks Working Group

The time has now come for a rather more detailed account of the procedure initiated by the Trade Committee and the Central Banks Working Group, with a view to the gradual establishment of a system for the multilateral compensation of payments in Latin America.

The essential task confronting the session of the Central Banks Working Group was to initiate the practical application of the principles laid down in resolution 1(I) of the Trade Committee in relation to the progressive co-ordination of the bilateral clearing systems, as a transitional step towards a multilateral payments régime. The methods envisaged consist in the standardization of accounting procedures and the voluntary transfer of balances within the limits of the swing credits. The countries participating in the Central Banks Working Group did not consider it desirable, for the time being, to make these triangular transfers automatic, since in some cases it might be difficult for a debtor country to absorb the balances covered by the transfers in a manner satisfactory to the creditor country, because of the inflexibility inherent in bilateral trading methods. Balances in excess of the swing credits must be transferred in foreign currency at the request of the creditor country.

The practical measures adopted in this connexion have a bearing on the points briefly outlined below.

(a) Standard payments agreement

Approval was given to a standard payments agreement designed to impart uniformity to the provisions of existing instruments of this kind, and the Latin-American clearing-accounts countries were recommended to bring the clauses of their current agreements into line with the text of this model or pattern. The significance of such a resolution lies in the fact that the adoption of common bases will facilitate intra-regional transfers of balances and the future incorporation of each bilateral account in a multilateral system.

The most important clauses in the standard agreement are those establishing equal quotations for units of account and free United States

/dollars and

dollars and the application of standard prices, whatever the market of destination of the exports concerned.^{17/} The aim of these provisions is to facilitate transfers, and the extent to which such principles are successfully implemented will obviously influence the practical scope of the agreements, and, consequently, the degree of interest aroused by the possibility of multilateral transfers.

(b) Operational system for payments agreements

The heterogeneity of the methods of operating payments agreements applied by the various Central Banks constitutes a serious obstacle to triangular compensation of balances. The Montevideo Group prepared, as a supplement to the standard agreement, a standard banking procedure for operations between Central Banks, or between these and private banks, with respect to inter-Latin American trade through clearing accounts.

(c) Exchange of comparable data

In order to render the transfer of balances feasible as a current practice, the Working Group decided that the Central Banks of the clearing-accounts countries should exchange data, on comparable bases, whereby both the current balance and the possible short-term evolution of each account might be ascertained. This exchange was initiated at the beginning of the second half of 1957, the secretariat having provisionally accepted responsibility for its operation, at the request of the Central Banks Working Group.^{18/} It will consist in the compilation and distribution of certain data which each country declared itself prepared to supply forthwith, under its own accounting system. At the beginning of 1958 a more comprehensive exchange of information will be instituted, on the basis of a common method of registration, also provided for in the resolutions of the Working Group.

^{17/} These clauses represent the application of the principles established in resolution 1(I) of the Trade Committee.

^{18/} The role of the secretariat will be that of a clearing-house for the data transmitted monthly by each Central Bank for distribution to the rest. The secretariat will on no account make any suggestions as to the triangular compensations which can be seen from the monthly statistics to be feasible. These will be the subject of direct negotiation between the Central Banks concerned.

/This interchange

This interchange of comparable data by the Central Banks ^{19/} will serve the threefold purpose of initiating practical co-operation among the Banks in question with a view to the progressive co-ordination of the accounts system; opening up the possibility of effecting transfers of balances; and providing the statistics required for the secretariat's continued study of the broader multilateral system to be introduced at a later date.

(d) Technical study of the multilateral system

This study, the aim of which is to explore the prospects for the ultimate establishment of a completely multilateral system, is being carried out by the secretariat and constitutes the natural sequel to the latter's previous work on the same basic problem. It deals not only with the possibilities for multilateral compensation within the present structure of inter-Latin American trade, but also with the nature of the various technical formulae that might finally be adopted. The Montevideo Group expressed satisfaction with the lines on which the secretariat had planned this technical study, which it had been requested to undertake by the Trade Committee, and at the same time pointed out that the experience acquired during the next few months in the implementation of the Group's resolutions might prove of decisive importance in the preparation of the formulae to which it might ultimately be deemed advisable to resort.

For a better understanding of the significance of the triangular transfers mechanism which is being established, one essential circumstance must be borne in mind. Most of the bilateral-accounts countries do not seem to expect any substantial improvement in their convertible-currency situation during the next few years. Consequently, the revision of extant agreements along standard lines, and the resultant transfers of agreement-dollars from one account to another, will provide a means - perhaps the only means, in present circumstances - whereby the work of breaking down the existing bilateral barriers may be begun.

^{19/} At the seventh session of the Commission it was decided that the same data should be transmitted every month to the International Monetary Fund.

3. Future phases of the work

In this context, the phases of the work that lie ahead, so far as the Central Banks or corresponding national authorities are concerned, comprise, on the one hand, the practical operation of the limited system of voluntary compensation of balances, with all the measures needful for adapting the trade and payments instruments to the altered situation, and the careful observation of the results of this experiment; and, on the other, continued efforts to prepare and gradually put into effect a trade policy designed to provide incentives for new activities and to raise the productivity of those already existing, so as to diversify exports and give an impetus to economic development. As regards the secretariat, its future work will follow the lines logically determined by the problems previously described. Its most immediate task will be to prepare, and assist in an advisory capacity, the second session of the Central Banks Working Group, which will be held at Rio de Janeiro at the time deemed opportune by the secretariat, in accordance with a decision adopted by the Group itself at Montevideo. The most important item on the agenda will probably be the feasibility of a more complete system of compensation, together with the techniques for implementing it, and the relevant discussion will be based on further technical studies by the secretariat, some of which, in conformity with the Working Group's express decision, are already in course of preparation.

III. REGIONAL MARKET

1. Resolutions adopted by the Trade Committee

The determination to set about planning the structure of a regional market is a symptom of the Latin American countries' ever-increasing awareness of the significance of their economic development problems. This decision found expression in resolutions 2(I) and 3(I) of the Trade Committee.

The first of these recommends to the secretariat that it proceed to make an inventory of the existing Latin American industries most affected by the problems deriving from parallelism and idle capacity, with the resultant anti-economic operational conditions, so as to determine what measures are advisable in order to remedy this situation. The second resolution requests the secretariat to set up a group of experts and co-operate with it in planning the possible structure of a regional market designed to contribute to the development of Latin American industries. The conclusions of the group of experts, together with the observations of the secretariat and those received from the other international organizations consulted, are to be submitted directly to the member Governments for their consideration and comments. These conclusions, with the Governments' accompanying comments, and, in addition, the secretariat studies requested in resolution 2(I), will be transmitted to the Trade Committee for it to take note of them and adopt an appropriate decision.

2. Justification of the regional market

During the first session of the Trade Committee, the need to establish a regional market was vindicated from a number of different points of view.^{20/} Outstanding among the arguments put forward were references to the fact that the markets of the individual countries are too small for each one to keep local industries operating under reasonable productivity and cost conditions when they entail complex techniques and a high investment coefficient. In certain cases where the stage of

^{20/} See the account of proceedings in Inter-Latin American trade: Current problems, op. cit., especially pp. 12-13.

installing heavy or semi-heavy industries has been reached, the existence of idle capacity is unavoidable, or work is based on such small production series that the inadequate utilization of equipment is reflected in costs which are disproportionately high as compared with those prevalent in countries traditionally engaging in this branch of production. In other instances, the inducement to create a single market for a number of countries was felt to be the possibility that heavy and semi-heavy industries for the manufacture of capital and durable consumer goods, which do not as yet exist in the Latin American countries or are barely incipient, may be established in the future, in which event heavy investment would be called for as well as markets much larger than that of any individual country in the region. Among the sectors to which these considerations are chiefly applicable, mention was made of those manufacturing iron and steel, pulp and paper, motor vehicles and parts, equipment for railways and ships and for the extraction and refining of petroleum, heavy chemical products and equipment for various transforming industries. In all these cases, as the Ad Hoc Group of experts appointed by the secretariat to prepare for the first session of the Trade Committee suggested, "there are many opportunities which would justify large-scale investment of foreign or Latin American capital or of both - on a joint basis or otherwise - if the availability of markets wider than those of the individual countries allowed satisfactory standards of productivity to be maintained, without the necessity of resorting to exchange manoeuvres and without the prospect of having to endure the effects of idle installed capacity, all too common to-day".^{21/}

Other important arguments were based on the distortion of investment brought about in several countries of the region by the development of industries as semi-monopolies and in anti-economic conditions, under the shelter of quantitative import restrictions indiscriminately applied without reference to how far the industries thus protected were economic.

^{21/} See Inter-Latin American trade: Current problems, op.cit., p.103.

3. Promotion of intra-regional trade and import substitution

Furthermore, it must be noted that by virtue of the expansion of the market to include five or six countries, domestic production to replace imports, in the phase of medium or heavy capital goods industries upon which Latin America is now entering, might take a more economic turn. And fresh impetus will have to be given in the immediate future to the process of substituting Latin American production for imports, on a variety of counts.

In the first place, as the secretariat's systematic series of studies shows, the capacity to import is likely to grow slowly in the near future, whereas capital goods requirements will increase at a rapid rate. This is no new phenomenon, but symptomatic of the under-development characteristic of the Latin American economies, based as they are on the export of a few primary commodities, world market demand for which is markedly inelastic. Certain recent events, however, are tending to give it additional weight. On the one hand, the share of raw materials, fuels and foodstuffs in Latin American imports has recently tended to become disproportionately large, at the expense of capital goods.^{22/} On the other, the possibility cannot be overlooked that the association of overseas territories with the member countries of the European Economic Community, on the basis of a series of preferences, may ultimately slow up or even halt the growth of Latin America's exports to Europe, with the consequent additional reduction of the capacity to import.^{23/}

In the second place, there can be no doubt that, if the strict bilateralism at present prevailing in intra-regional trade is to be definitely left behind, administrative arrangements to facilitate the compensation of inter-Latin American trade balances will not be enough. The restoration of this trade to flexible multilateral patterns in line with the demands of the region's economic development will be possible only

^{22/} This trend was analysed and interpreted in Economic Survey of Latin America 1956 (E/CN.12/427), vol.I, chapter V.

^{23/} This hypothesis was provisionally discussed in the Note by the secretariat on the possible repercussions of the European common market on Latin American exports, op.cit.

/when the

when the adoption of a consistent trade policy successfully brings about a substantial increase in the volume of intra-regional exports, as well as their diversification. To this end, carefully planned measures for import substitution and diversification of production must constitute the nucleus of a policy for the promotion of intra-regional trade designed to remove the obstacles to multilateralism. And one of the most effective methods of applying such measures might be the creation of a regional market. Thus, the market in question appears as a pressing necessity, first because of the limitations imposed by the behaviour of the external sector of the Latin American economies, and secondly as a means of organizing import substitution efforts along more rational lines.

4. Some ideas on the regional market

At its first session the Trade Committee did not spend time on discussing the specific alternatives whereby a regional market mechanism might ultimately be set up in Latin America. The topic is so complex as to necessitate further comprehensive studies, for which the secretariat will be largely responsible, before the member Governments of the Commission can take up clearly-defined positions. However, the views expressed on the subject of the regional market can be condensed in a very general formula. It was felt that in principle such a market should be confined to industrial products - capital goods in the main - which are not yet or are only beginning to be manufactured, so that equal opportunities for the development of such new activities in the various countries of the region would be provided from the outset. Existing sectors in which idle capacity is registered, and those other industries, also already holding an established position in each country's individual market, in which costs would be most likely to react to the extension of the market to a number of countries, would be successively included, though still by gradual stages.

Furthermore, there was a consensus of opinion to the effect that the system to be established should not follow any bilateral and restrictive pattern comprising agreements between pairs of countries as to the reciprocal reservation of their markets for the new industries to be

/installed in

installed in either of the countries concerned, on the basis of exclusive preferences and the large-scale participation of official capital. On the contrary, a multilateral and competitive system, preferably based on private initiative and the co-operation of foreign capital, was considered the more desirable solution. Such a system would respect the rules of competition and reciprocity, since the new activities of any country within the sphere of the regional market would be developed on a basis of competition with identical activities ultimately to be established in the other countries of the region, and there would be no room for the setting up of monopolies in each individual industry to the benefit of this or that particular country.

5. Regional market expert group

After the session of the Trade Committee, at which resolutions were adopted on both payments and the regional market, the secretariat attached particular importance to the work connected with the inter-Latin American payments system, of which the purpose was to facilitate the transition from the present watertight bilateralism to a system for multilateral transfers of balances. In following such a course, the secretariat was merely giving clearly-defined priority to the problem of payments. Efforts to solve it are in reality of direct importance for the preparation of any regional market formula. It is hardly conceivable that the structure of such a market can be planned without reference to certain principles, at least, relating to co-ordination of the member countries' exchange policy, as well as to parity between the units of account concerned, and the automatic inclusion in the accounts of payments arising out of the free circulation of goods admitted to the regional market. For these reasons, any preliminary step towards the regional market is really inseparable from measures to break down the bilateral barriers at present characterizing the payments system.

This does not mean, however, that the creation of a regional market is not in its turn an indispensable requisite for the satisfactory continuation of efforts to introduce multilateralism in inter-Latin American trade. As was previously noted, the regional market forms an

/essential part

essential part of a policy of incentives to the intensification and diversification of intra-regional trade.

The method established by the Trade Committee for the preliminary survey of regional market possibilities entails close collaboration between a group of experts appointed by the secretariat and the secretariat itself. During the seventh session, at which the Trade Committee's resolution was endorsed,^{24/} the secretariat announced its intention of convening the first session of the Expert Group during the second half of the current year, and also supplied information on the preliminary studies at present under way, which will be submitted to the Group in question.

Activities relating to the establishment of a regional market in Latin America fall into two phases, which are completely different in nature, in method of execution and in the proportion of the work incumbent upon the secretariat. The first phase, upon which a beginning has already been made, is entirely preparatory and pre-eminently technical; it comprises the study of those industrial sectors eligible for inclusion in the regional market, of the possible repercussions of the establishment of such a market, of the specific formula that might be adopted and of the operational problems which are likely to arise after its application and which must be foreseen and taken into account from the outset. During this first phase, the secretariat, in collaboration with the Expert Group, which will lay down guiding principles, will be mainly responsible for the execution of the work. It will probably also be necessary to seek the co-operation of official experts in the interested countries, specializing in particular sectors or problems, as well as that of the experts attached to certain international agencies which have had experience in the field of economic integration, like GATT. This collaboration will be secured on terms to be defined by the Expert Group. By the time this first phase comes to an end, a specific regional market formula will have been prepared, together with the appropriate mechanisms for its operation, or else several alternative formulae on which direct negotiations among the Governments concerned may be based.

^{24/} See resolution 116(VII) (E/CN.12/457), the text of which is given in annex II.

In the course of the second phase, the Governments will ultimately conduct negotiations directed towards the final establishment of a regional market treaty or agreement, based on the specific formula or formulae resulting from the joint technical studies of the secretariat and the Expert Group. This phase of the work is mainly a matter of policy, which does not, however, mean that the technical advice of the Expert Group and the secretariat may not be considered necessary in the course of the Government negotiations.

The first or preliminary phase comprises two clearly defined and differentiated types of work. On the one hand there are the studies of industrial sectors to be carried out in each of the potential member countries; on the other, a distinction must be drawn between these and the studies on regional market mechanisms and operational problems, which are of a more general nature in the sense that, at least in their first provisional form, they do not directly depend upon the sectors to be included in the market.

The purpose of the studies on the industrial sectors is to evaluate trade possibilities in the regional market, largely in terms of the development of new sectors of activity under the stimulus of the expansion of the market available for the various commodities. Each member country's contribution to the market in question, in the form of the expansion of existing or the installation of new industries, will also be projected.

The studies on possible operational mechanisms for the common market will need to cover the tariff, exchange, monetary and fiscal aspects of its operation, as well as an analysis of problems connected with the institutions responsible for the administration and, up to a point, for the preparation, of economic policy in its bearing on the regional market.

6. Importance of studies of industrial sectors

The preliminary technical studies on the prospects and probable consequences of the establishment of a regional market in Latin America, should be as comprehensive as possible. It is scarcely superfluous to stress their importance, as well as their complexity and, in many instances, their novelty. From several points of view, the analysis of the European integration experiment will be of only limited value as a guide for similar studies in Latin America. The method of preparing the common market adopted in Europe differs from the system that is being sketched out for Latin American economic integration, and this dissimilarity sets fairly narrow limits to the possibilities of taking advantage of Europe's experience and applying its lessons to an analogous situation in Latin America. In Europe, operational mechanisms were prepared independently of any preliminary investigation of probable repercussions on each of the main sectors of activity in the individual member countries. On the other hand, the prevalent opinion in Latin America is that preponderant importance will have to be attached to such a prior study, the purpose of which will be to indicate how the various sectors are likely to evolve and how, under the stimulus of competition, the new activities embarked upon within the framework of the regional market will be distributed among the member countries.

In 1948 the Brussels Customs Co-operation Council essayed a preliminary survey of the probable repercussions of European integration on each sector of activity. But the attempt was a failure, owing to the wide range and exceptional complexity of the problems raised by such research, and thenceforward the procedure was reversed, all co-operative effort being concentrated on the preparation of technical and legal formulae, while it was left to each country to study, if it so desired, the probable sectorial repercussions of these integration methods.

In Latin America the opposite procedure, based on far-reaching and complex technical studies, is advisable, because the aims of the Latin American regional market are related not so much to the promotion of trade or the intensification of competition where existing activities are

/concerned, as

concerned, as to the establishment of new industries not yet existing in the region, or only at an incipient stage. Previous knowledge of the strength and extent of the regional market's influence on the geographical distribution of these new activities is of vital importance for the member countries; and it can be acquired only by means of sectorial studies in which due weight is given to the determination of the probable costs of new industries in the various countries.

The secretariat is preparing the background material and the preliminary studies of a general kind required for the first session of the Regional Market Expert Group. As far as possible the Group will be provided with the necessary data on the possibilities of including certain heavy capital goods, such as, for instance, railway equipment, high-powered diesel engines, equipment for the manufacture of pulp, and so on, in a restricted regional market. These preliminary data will also include a summary of the ideas, facts and projections deducible from studies already carried out or under way in connexion with the regional market. Cases in point are the studies on the pulp and paper industries in Argentina and Chile, which will shortly be completed by the addition of a survey of the same industries in Brazil, as well as the documents deriving from the technical discussions held at the Latin American Meeting of Experts on the Iron and Steel Making and Transforming Industries, held at Sao Paulo, Brazil, in 1956.

Attention should also be drawn to the study on Brazil's incipient motor vehicle industry, which the secretariat is carrying out during the current year with the co-operation of the Brazilian Government. This survey, which it is proposed to duplicate shortly in Argentina, will provide the Expert Group with data on which to appraise the possibilities of including in the regional market an industry for whose products broader development and trade prospects are opening up.

Again in connexion with the outlook for the regional market, interesting information can be obtained from the study on the Argentine machine and industrial equipment industry, which will form part of the report on Argentina to be issued shortly by the secretariat.

/The Expert

The Expert Group will also be supplied with data on the mechanism and operational problems of the European common market, especially from those points of view which are of the greatest importance for planning the structure of the regional market. These include, for example, such aspects as the stabilization of the member countries' reciprocal balance-of-payments situations, alternative methods of dealing with the temporary difficulties disturbing this equilibrium, and standing procedures for consultation among the various countries on monetary and fiscal policies, as well as devices to ensure that such policies follow increasingly similar lines.

7. First session of the Expert Group

The task of the Expert Group at its first session, which is soon to be convened, will be to consider the general lines along which the whole study of the regional market is to be conducted, and to define procedures for consulting the Governments and international agencies concerned, as well as to establish its own programme of future work.

One aspect of the guidance which the Expert Group is expected to supply is an indication of those sectors where the feasibility of establishing a regional market merits particular consideration. From its very first meeting, the Expert Group will need to discuss the lines on which it is proposed that the common market may be planned, and the alternative structures which will have to be the subject of simultaneous and detailed study by the secretariat.

The topics mentioned here serve only to illustrate some of the problems which will undoubtedly claim the attention of the Group or the secretariat. The agenda for the session of the Group will be prepared in consultation with the experts who are to participate. In principle, it is thought that the following questions, inter alia, will have to be discussed in detail:

(a) Bases for the inventory of industries in Latin America referred to in resolution 2(I) of the Trade Committee. As the terms of this resolution are very broad, it seems desirable for work to be concentrated, to begin with, on the limited number of industrial sectors that are of

/major interest

major interest for the purposes of setting up the regional market. To this end, the secretariat and the Expert Group will discuss the priorities to be allocated, as well as the most satisfactory methods to be adopted.

(b) The methodological bases that are being provisionally and experimentally utilized for the secretariat's study on the motor vehicle industry, so as to determine the possibility of applying them to the analysis of other sectors as well.

(c) The most important general problems which the regional market is likely to involve, and which will have to be studied by the secretariat. The chief of these difficulties are those arising from the fact that industrial costs structures differ from one Latin American country to another, for reasons which are not entirely economic, such as varying monetary, exchange and fiscal conditions and unequal degrees of industrial development. The following questions are of salient importance:

(i) Suitable procedures to prevent the repercussions of different degrees of inflation on each country's competitive position. If internal inflationary pressures cause a rise in costs, and this is not offset by a timely modification of the exchange rate, the balance of the reciprocal agreements existing at the time when the regional market is introduced may well be disturbed. And such an eventuality might create obstacles to the continuity which it is important to maintain in the implementation of agreements concluded with a view to putting the market into operation.

(ii) Bases for the less developed countries' participation in the regional market. Attention is drawn to the need for preventing the regional market from becoming a means of perpetuating and even aggravating the disparities between their stages of industrialization which divide the countries of the region. If special measures were not adopted to protect the less developed of the countries involved, this would be all the more likely to happen, inasmuch as the object of the establishment of the regional market is to enable those member countries that are capable of taking advantage of its larger size to attain higher levels of industrial productivity. The possible solution will inevitably be linked to some

/very close

very close combination of the two aims - liberalization of trade and promotion of development. Liberalization would be put into practice by gradual degrees, and with due regard to the creation of conditions likely to favour the balanced development of the whole region.

(iii) Special arrangements between adjacent countries, within the framework of the regional market agreement. The nature of the long-standing trade relations between certain adjacent countries calls for consideration of the desirability and possibility of according them special treatment under the regional market legislation.

(iv) Need for the gradual standardization of foreign investment legislation in the different countries, and means of putting this into practice. The lack of a relative degree of uniformity, sufficient to eliminate the main discrepancies as regards advantages conceded to foreign investors, might place the countries members of the regional market in dangerously unequal positions.

A N N E X E S



REPORT SUBMITTED BY COMMITTEE I AT THE
SEVENTH SESSION OF THE ECONOMIC
COMMISSION FOR LATIN AMERICA

1. Committee I at the seventh session of the Economic Commission for Latin America was responsible for the study of matters connected with the Latin American countries' foreign trade and payments, with the constitution of a regional market and with the repercussions of the creation of the European common market on trade and investment in the Latin American countries.
2. Under the chairmanship of Mr. Ariosto González, the representative of Uruguay, and with Mr. Emilio Barreto, the representative of Peru, as Rapporteur, the Committee held five plenary meetings from 20 to 25 May 1957, which were attended by the representatives of Argentina, Bolivia, Brazil, Chile, Costa Rica, Cuba, Dominican Republic, Ecuador, El Salvador, France, Guatemala, Honduras, Mexico, Netherlands, Nicaragua, Panama, Paraguay, Peru, United Kingdom, United States of America, Uruguay and Venezuela, as well as by observers from Bulgaria, Czechoslovakia, the Federal Republic of Germany, Hungary, Italy, Japan, Romania, Spain, the Union of Soviet Socialist Republics, the United Nations Food and Agriculture Organization, the International Bank for Reconstruction and Development, the International Monetary Fund, the Inter-American Economic and Social Council, the General Agreement on Tariffs and Trade and the World Jewish Congress. A further five meetings were held by the Working Group appointed to make a special study of the draft resolutions submitted for its consideration, and originally composed of representatives of Argentina, Brazil, Chile, Mexico

/and the

and the United States of America, who were afterwards joined by members of the delegations of Ecuador, France, Peru and the United Kingdom. The Working Group met under the chairmanship of Mr. José Garrido Torres (Brazil). In the course of its meetings, the Committee discussed inter-Latin American trade and the regional market, the payments system and the repercussions of the European common market project on Latin America's foreign trade. Eight resolutions were adopted by the Committee in connexion with these topics.

3. Payments system. The Committee considered the report submitted to the Trade Committee by the First Meeting of the Central Banks Working Group on a Multilateral Payments System, held at Montevideo from 29 April to 10 May 1957. The purpose of this Meeting was to prepare practical measures for the application of the principles established by the Latin American clearing-accounts countries in resolution 1(I) of the Trade Committee.

4. It was agreed that the documents prepared at the First Meeting of the Central Banks Working Group, which included an outline of the proceedings, a draft standard payments agreement and a standard banking procedure for the operation of the accounts, related to subjects of concern to those countries whose reciprocal trade was conducted through clearing accounts on a bilateral basis. These countries proposed to revise their agreements along lines which would permit of gradual progress towards multilateralism.

5. There was a consensus of opinion to the effect that the technical aspects of the subjects dealt with in the documents prepared at Montevideo should be clarified at the next session of the Trade Committee. This did not mean, as was pointed out by the delegations of countries which had participated in the Montevideo meeting, that the documents in question could not be taken into consideration forthwith in the revision of existing or in the negotiation of new payments agreements.

6. The delegations also unanimously agreed to recommend to the secretariat that, after prior consultation with the appropriate Central Banks or equivalent authorities, it should transmit each month to the International Monetary Fund the comparable data on balances in the inter-Latin American
/clearing accounts

clearing accounts referred to in resolution 2 of the First Meeting of the Central Banks Working Group. The Executive Secretary explained that the secretariat shared in the concern expressed by some delegations lest ECLA's efforts might be diverted from their proper channels if it were requested to undertake banking operations. He pointed out, however, that the function which ECLA was to fulfil was of a limited nature and would last only until a system of transfers was introduced which would justify the creation of a special agency. In no circumstances would the secretariat be empowered to suggest that clearing operations should be effected. ECLA would have pleasure in discharging the duties proposed if such a request were made, as well as in helping to devise any other arrangement, including the establishment of a special agency.

The meeting of the Working Group at Montevideo was a step towards multilateralism, since completely new ways and means had been envisaged to facilitate voluntary clearing operations on the part of the Central Banks. It would now be the wish of the secretariat to study ways of reducing bilateral balances through the expansion of trade, so that a multilateral agreement could be established at higher trade levels. The situation of the Latin American republics differed widely from that of the European countries, which were endeavouring to restore their trade after the war. In the case of the latter it was a question of multiplying trade channels.

It was not the secretariat's intention, in submitting the report of the Working Group for consideration by the Committee, to initiate an exhaustive discussion of the subject, a task which was incumbent on the Trade Committee. Nevertheless, any opinions expressed might be very helpful in the preparation of the documents which would have to accompany the Working Group's report when it was presented to the Trade Committee.

7. Two delegations, one from a member country of the Commission and another attending as an observer, called attention to the interpretation which might be placed on article 12 of the draft standard agreement. This article related to the payment of balances by the debtor country when they exceeded the credit limit stipulated in the agreement concerned. The general tenor of the article would seem to indicate that the settlement
/of balances

of balances in excess of the stipulated credit was Voluntary, and the text was therefore apparently at variance with the intentions of resolution 1(I) of the Trade Committee. In that case it would represent merely the maintenance of the previous system, instead of an improvement upon it, and the accumulation of unpaid balances might bring trade to a standstill instead of promoting its expansion. This would occur under any system which left settlement of the balance to the discretion of either the creditor or the debtor, and article 12, however interpreted, did leave the creditor free to exercise such discretion. It therefore appeared inconsistent with resolution 1(I).

The existing bilateral instruments usually provided that sums in excess of the stipulated credit had to be paid in convertible currency. It was true that for six years most countries had been in the habit of waiving this contractual right. For one reason or another it was felt preferable to wait until the balance was reduced by means of an expansion of the debtor country's exports or a contraction in its purchases. If it were officially recognized in the new treaties concluded on the lines of the draft standard agreement - with a view to the gradual adoption of multilateral practices - that the creditor country could not demand payment of the balance in excess of the credit in convertible foreign exchange, its position would be weakened from both the technical and the legal standpoint. In essence, the result would be a reaffirmation of bilateralism.

One delegation and one observer gave it as their opinion that the standard agreement ought to state in precise terms the creditor's right to claim automatic settlement of balances in excess of the swing credit.

8. The delegation of a country which had been represented by its Central Bank at the Montevideo meeting stated that the expression "may request" had been considered preferable to the term "shall demand" because the latter was too strong to be applicable between autonomous parties. In reality the creditor country had the right to make a definite claim, as could be established in any agreement if the parties so desired. Of course, balances in excess of the swing credits would be less likely to accumulate, provided that the credits stipulated were adequate, under the new system facilitating the transfer of balances to the accounts of third countries.

/Another delegation

Another delegation from a country whose Central Bank had also been represented at the Montevideo meeting supported the foregoing interpretation of article 12 of the draft standard agreement.

9. The delegation present as observer for the International Monetary Fund remarked that in its opinion an alternative formula to that established in article 12 of the draft standard agreement might be desirable, and offered to present through the secretariat, for incorporation in the present report, the following alternative text:

(a) Automatic transfers. While this agreement remains in force, the account may show a debit or a credit balance up to the sum of dollars.

"The Central Bank of the creditor country may at any time request from the Central Bank of the debtor country the total or partial transfer of the balance to another clearing account in operation with a third Latin American country, in accordance with the procedure approved as provided in article 9 paragraph (b), or may reach an agreement with the Central Bank of the debtor country for the payment of the balance in question.

"When the balance exceeds the specified amount the Central Bank of the creditor country may come to an agreement with the Central Bank of a third Latin American country for the total or partial transfer of the excess. If within a period of the excess is not cleared by the method referred to, the Central Bank of the debtor country shall pay the whole of the excess in free United States dollars or in foreign exchange acceptable to the Central Bank of the creditor country."

(b) Voluntary transfers. First and second paragraphs unchanged. The third paragraph would read as follows:

"When the balance exceeds the specified amount and if within a period of the excess is not cleared by the methods referred to, the Central Bank of the creditor country may request its total or partial payment in free United States dollars. Should it fail to obtain satisfaction in one way or the other, the Central Bank of the creditor country may then refuse to accept additional balances in its favour."^{1/}

^{1/} In both cases, the last sentence of article 15 would seem to be superfluous.

10. In accordance with a suggestion put forward in the Committee, the valuable co-operation rendered by the delegation of the International Monetary Fund, both at the plenary meetings and in Committee I and its Working Group in the discussion of the various draft resolutions, is placed on record in the present report.

11. The delegation of a country which conducts its trade on multilateral lines and does not participate in inter-Latin American clearing accounts stated that, although its national monetary system was based on free convertibility and multilateralism, it viewed with sympathy and was prepared to support the efforts of those countries which still maintained bilateral agreements to stabilize payments and promote the development of multilateral trade.

12. Paragraph 3 of the resolution on payments (E/CN.12/AC.35/1) recorded a new departure in the co-ordination of the trade policies of the Latin American countries. According to this paragraph, the Latin American clearing-accounts countries were prepared to study the possibility of revising, during the second session of the Central Banks Working Group and immediately thereafter, the agreements in force for each pair of contracting parties in Latin America.

13. A further suggestion was put forward by the same countries as had formulated that embodied in paragraph 3 of the resolution on payments. They proposed that countries members of the Commission but not participating in the inter-Latin American clearing-accounts system should be invited to take the opportunity afforded by the simultaneous revision of existing payments agreements to conduct discussions or negotiations, as each country deemed best, aimed at the improvement and expansion of trade.

Several points of view were expressed in connexion with this suggestion. One of the delegations sponsoring it said that there might be advantages in initiating the practice of simultaneous revision of inter-Latin American agreements at regular intervals.

14. One observer declared that care should be taken in the application of such a method, should it be adopted under one of the resolutions of ECLA's
/seventh session,

seventh session, to avoid reference to resolutions mainly relating to bilateral agreements. Although they were designed - like resolution 1(I) of the Trade Committee, and that on the draft standard agreement adopted at the First Meeting of the Central Banks Group - to promote the gradual extension of multilateral practices, an invitation to revise or negotiate agreements issued to countries independent of the bilateral-accounts system would have to be couched in terms consistent with the ever-increasing application of the multilateral practices in question.

15. Some delegations declared that in their opinion there was no point in embodying in a resolution such an invitation to countries outside the inter-Latin American clearing-accounts system. There was nothing to prevent those countries from sending representatives, at the appropriate time, to the meeting-place agreed upon for the revision of the agreements between the clearing-accounts countries and there conducting discussions or negotiations, as they deemed best, with respect to the improvement and expansion of trade relations. Neither did they see any objection to the Governments' informing the secretariat in due course, if they so desired, of their intention to participate in the meeting.

16. The delegation of Uruguay, which was one of those sponsoring the resolution on payments, suggested in connexion with paragraph 3 of the resolution in question that note might be taken in the report of the seventh session of the fact that its Government had held consultations, at an appropriate moment, with the chancelleries of the Latin American clearing-accounts countries, on the desirability of simultaneously revising the payments agreements in force, in order to bring them into line, in so far as was compatible with the characteristics of each trade channel, with the Montevideo draft standard agreement. Such a simultaneous revision could of course be carried out by each pair of countries. Special circumstances had prevented consultation with one of the countries concerned; but so far no negative reply had been received to Uruguay's enquiries addressed to other Governments. On the contrary, five of the six Latin American clearing-accounts countries had already replied in the affirmative. A note to that effect might therefore advantageously be
/included in

included in the report of the seventh session, since the attitude adopted by the Governments concerned showed that views were beginning to prevail in the region which would be conducive to the co-ordination of Latin American trade and payments policies. The delegations unanimously agreed that this statement by Uruguay should be recorded in the report.

In relation to these payments problems the Committee adopted a draft resolution which appears in the relevant part of the report.

17. The delegation attending as observer for Spain recalled that in the report of the first session of the Trade Committee note had been taken of Spain's desire to participate in agreements relating to the establishment of the multilateral payments system - a desire which it still entertained.

On account of the relative similarity between the clearing-accounts trade conducted with Spain by some of the Latin American countries and the corresponding intra-regional mechanism, Spain felt that reciprocal advantages would attach to a form of co-operation that would include it - once the specific studies required had been carried out by the secretariat - in the system proposed. Spain was specifically interested in being admitted as soon as possible to the system for the exchange of data on balances in the inter-Latin-American clearing accounts, which was to be brought into operation on 1 July 1957 in accordance with the bases established at the First Meeting of the Central Banks Group.

There was a consensus of opinion to the effect that the declaration made by the observer for Spain should be placed on record in the report of the seventh session and that the secretariat should be requested to give it due consideration.

18. Latin American regional market. In the course of the discussion on this topic, the secretariat had the opportunity of recalling, in the first place, certain points of view expressed at the first session of the Trade Committee in connexion with the creation of a regional market in Latin America and with the two resolutions on that subject adopted at the meeting in question. In one the secretariat had been requested to make an inventory of existing industries in Latin America, and in the other it had been asked to appoint a group of experts to study the necessary procedures for the creation of a regional market.

/In summing

In summing up the work carried out in relation to the regional market, the secretariat also pointed out that to begin with special attention had been devoted to the problem of payments between the Latin American countries that conducted their reciprocal trade on the basis of clearing accounts, since its solution constituted an essential requisite for the building-up of the regional market. Considerable progress in that direction had already been made, as would be seen when the relevant item on the agenda was discussed. Furthermore, the secretariat had completed or was carrying out studies of specific manufacturing activities - such as the pulp and paper, iron and steel, and motor vehicle industries - in certain countries, which would provide valuable background data on the possibilities of their inclusion in a regional market, in addition to the information obtainable from the studies under way in Argentina and Peru. The secretariat was making the necessary arrangements for the first meeting of the Group of Experts to be held in the second half of 1957.

The representative of the Inter-American Economic and Social Council stated that the topic of the regional market would undoubtedly be discussed at the Inter-American Conference of Ministers of Economy which was to be held at Buenos Aires in August, since the agenda included items relating to the expansion of inter-Latin American trade. Consequently, his organization was particularly interested in the regional market studies carried out and projected by the ECLA secretariat, as well as in closely following the discussions on that topic at the seventh session, in order both to transmit to IA-ECOSOC the views expressed by the delegations and to ensure the continuance of effective collaboration between the two secretariats.

In regard to this statement by the representative of IA-ECOSOC, one delegation seconded the view that the co-ordination and integration of the work of IA-ECOSOC and ECLA in this field was a matter of urgency. It was desirable that the ECLA secretariat, with a view to achieving such co-ordination and avoiding possible dissipation and duplication of effort, should prepare a comprehensive report on the regional market studies completed, in course of preparation or projected and that this report should be distributed to the Governments members and to the secretariat of IA-ECOSOC, before the Economic Conference at Buenos Aires.

/The Committee

The Committee embodied this proposal in a draft resolution, which was adopted.

With respect to the Latin American regional market, it was patent that the Committee was unanimously prepared to endorse the attitude adopted by the Trade Committee at its first session, in recognizing that it was both necessary and desirable for such a market to be established and that the problem to be solved was one of procedure. Several delegations pointed out that certain recent events, in particular the creation of the European Common Market, made the completion of studies and other work conducive to the formation of the Latin American regional market a still more pressing need. In this connexion, the Committee adopted a draft resolution in which, besides expressing its satisfaction at the success of those aspects of the Trade Committee's first session that related to the regional market, it recommended to the secretariat the desirability of expediting the implementation, within the shortest possible time, of resolutions 2(I) and 3(I) of the Committee concerned, with a view to the taking of a more decisive step towards their underlying objective. In the same draft resolution the secretariat was also recommended to conduct research and compile all data that might serve as a basis for the work of the group of experts mentioned in resolution 3(I) of the Trade Committee, at the earliest opportunity, so that the availability of such background information might facilitate the task of the group. To this end the secretariat was empowered to request, should it deem this necessary, the collaboration of other competent international agencies. The secretariat was also to ask the group of experts to bear in mind, in planning the structure of the regional market, the specific situation of those Latin American countries which were landlocked or whose economic structure was dependent on a single branch of production or lacked diversification, as well as to consider the desirability of facilitating the formation of enterprises with capital supplied jointly from two or more countries and to study the problems facing the development of a regional market, in which study consideration would be given to each and every Latin American country, with due regard to its situation and possibilities.

19. Possible repercussions of the constitution of the European Common Market on the Latin American economy. With reference to the Treaty on the European Community, signed at Rome in March, and providing, inter alia, for the creation of a common market among the six signatories - Belgium, the Federal Republic of Germany, France, Italy, Luxembourg and the Netherlands -, for the creation of a Special Fund for Economic Development and for the more complete incorporation of associated overseas territories, lengthy statements were made by delegations from countries members of the European Community, by the representative of GATT and by the delegations of the Latin American countries which were apprehensive about the possible repercussions of such a common market on exports of certain of Latin America's primary commodities, as well as on European investment in the region.

The representative of GATT stated that the six signatories had presented the text of the Treaty establishing the European Economic Community to his organization shortly after it had been signed, and that steps had immediately been taken to put into effect the procedure established under the General Agreement for such cases.

The Contracting Parties of GATT would meet in October 1957 to consider whether the Treaty was compatible with the six countries' commitments under GATT, and how far it was consistent with the general principle that the aim of a customs union was to facilitate trade between the members of the union and not to hamper trade with other countries. Among the points that would have to be discussed, the most important were the level of the common tariff, the restrictions applied by the Community, the duration of the period of transition and the system of preferences. As far as the duties fixed by GATT were concerned, they could not be increased in consequence of the adoption of the common tariff without prior negotiations between the countries concerned; should such negotiations prove unsuccessful, the countries whose interests had suffered would be entitled to withdraw equivalent concessions. GATT's procedures offered specific guarantees to third countries. Moreover, under the regulations of GATT, all those Latin American countries which were not parties to the General Agreement had the right to send observers to the meeting in question and to take full part in the discussions. Lastly, the responsibilities of GATT would not end when it had adopted the decisions reached at the forthcoming session;

/it would

it would probably arrange regular meetings during the transition period with the six members of the Community and with its agencies, so as to ensure that the Treaty was applied in conformity with the decision adopted by GATT and with the principles on which article XXIV of the General Agreement was based.

Again, two delegations from countries members of the Commission and at the same time parties to the European Common Market Treaty, as well as one observer, expressed the point of view that the Latin American countries should not feel apprehensive on account of the European common market project. The common foreign trade policy adopted would be pursued within the framework of the United Nations and would aim at co-operation with the other regions of the world. Consideration would be given to the tariffs affecting certain Latin American products, as well as to the domestic consumption of the six European countries, in so far as it might affect trade and tariffs agreements. Similarly, the investments that the countries concerned had engaged to effect in Africa mainly consisted of official long-term capital.

The delegations of some of the Latin American countries, while expressing their sympathy with the endeavours of the six signatories of the common market Treaty, nevertheless felt some anxiety as to the possible repercussions of such a market on their economy. They emphasized that their concern arose from the inclusion of overseas territories as associates in the common market, which might mean that the investments placed in Latin America by the six countries in question would be diverted towards the associated territories. Furthermore, the increased development of production in such territories, together with the preferential treatment they might possibly be accorded, might lead to the superseding of Latin American export commodities in the European common market by those of the territories concerned, since their competitive position would be affected.

The Committee, after considering with interest the substantial contribution to the topic under discussion represented by the preliminary report which the secretariat had prepared in that connexion, agreed that ECLA should continue to observe closely the economic integration of Europe and other areas and should keep the member Governments supplied with the

/relevant information.

relevant information. It was also decided that the secretariat should carry out studies on world market prospects for Latin American primary commodities, taking into consideration in particular the consequences that might arise from the European common market, from the possible establishment of a free-trade zone in Europe, and from other similar projects. Finally, it was further agreed that such studies should be conducted along broad lines so as to cover all possible effects, and should be co-ordinated with the work of other regional commissions, GATT and other agencies of the United Nations. A draft resolution to this effect was presented and adopted.

20. Four resolutions were also adopted on other topics, as follows:

(a) That the secretariat, after prior consultation with the secretariat of the Inter-American Economic and Social Council, should continue the studies on the problems of inter-Latin American transport, especially inadequately served trade routes;

(b) That a further session of the Trade Committee should be convened during the course of 1958;

(c) That member States should be recommended to grant the greatest possible facilities for the expansion of the international trade of landlocked countries of the region; and

(d) that the secretariat should continue and intensify its studies on inter-Latin American commodity trade, principally with a view to suggesting measures whereby the structural disequilibria in the balance-of-payments situation of some Latin American countries might be remedied, and to expanding trade both within and outside the region at increasingly high levels, as a result of which it would be possible to expedite the transition towards greater liberalization of trade and a multilateral payments system. At the same time, note was to be taken of resolution 4(I) of the Trade Committee. In connexion with this last resolution, the delegations of the United Kingdom and of the United States of America took the same position as at the first session of the Trade Committee, and abstained from voting.

21. With respect to maritime traffic, the discussions revealed a similarity of views on the point that through the Trade Committee an attempt should be made to remove the obstacles to inter-Latin American trade created by

/certain unfavourable

certain unfavourable features characterizing maritime transport. It was recalled that in compliance with resolution 101(VI), adopted at the sixth session, the secretariat had analysed the problems concerned, and that the findings of its survey were contained in chapter V of the document entitled Study of Inter-Latin American trade (E/CN.12/369/Rev.1).

In carrying out the study, the secretariat had in due course held consultations with IA-ECOSOC, in order to avoid dealing with topics that the latter had under consideration, such as those relating to specific maritime traffic problems affecting Latin America's foreign trade in general, to port efficiency and to the training of personnel.

In this connexion, the representative of IA-ECOSOC stated that, although there were obviously certain points of contact between the subjects dealt with in the studies of ECLA and of IA-ECOSOC, the two organizations approached them from intrinsically different angles. Through the timely consultations held by both secretariats at a level of co-operation which should be maintained, their respective work was being performed on a basis of satisfactory co-ordination. Duplication of effort and expenditure had thus been completely avoided.

It should be made clear that the discussions were carried on at a high technical level and were pervaded by a laudable spirit of co-operation, thanks to which the work of the Committee gave rise to positive decisions of supreme value for the countries represented on the Economic Commission for Latin America, as the foregoing considerations will have shown.

At the last meeting of the Trade Committee the delegation of Chile made the following statement, of which it was unanimously decided to take note in the report: "At this seventh session unanimous recognition has been accorded to the importance of the work carried out by the Central Banks Working Group at Montevideo, which clearly constituted the first practical step towards achievements of vital importance for the economic development and the standard of living of the peoples of Latin America.

"As regards the Montevideo meeting, it would be the merest justice to place on record in the report of the seventh session our gratitude to the Government of Uruguay and the Banco de la República of that country for their invaluable assistance, both moral and material, in the conduct of the Montevideo conference.

/ "The Central

"The Central Banks Group was there afforded every kind of incentive to the more efficient performance of its task. It was possible for the whole fortnight's session, at which delegations, observers and secretariat personnel amounted in all to over 70 people, to be held virtually without cost to ECLA, which sent to Montevideo only one of its senior officials. I therefore have the honour to propose that in our report we render a well-deserved tribute to the Government of Uruguay and the Banco de la República of this sister nation".

The delegations present unanimously supported the foregoing proposal.

Finally, it should be mentioned that, at its last meeting, the Committee also unanimously decided to place on record a vote of thanks to its Chairman, Mr. Ariosto González, representative of Uruguay, and to the Chairman of the Working Group, Mr. José Garrido Torres, representative of Brazil, for the efficiency with which they had discharged their responsibilities, as well as to the ECLA secretariat for its work in connexion with the session of the Central Banks Working Group.

II
RESOLUTIONS ADOPTED

Resolution 115 (VII)

INTRA-REGIONAL PAYMENTS SYSTEM
(E/CN.12/456)

The Economic Commission for Latin America,

Considering:

(a) That the Trade Committee, set up by virtue of resolution 101(VI) adopted at the sixth session, held its first session at Santiago, Chile, in November 1956, and has presented at this seventh session a report on the results of its work;

(b) That, at the aforesaid session, the Governments members of the Trade Committee adopted, among others, resolution 1(I), indicating the lines that should in their view be followed in the work of gradually converting the bilateral methods prevalent in inter-Latin American trade into a multilateral system;

(c) That, in the same resolution, the Committee takes note of the fact that the Latin American clearing-accounts countries are prepared, during the transitional period before the proposed multilateralism can be achieved, to adopt various principles and measures designed to impart greater flexibility to their payments relations and to make possible the transfer of balances between the various bilateral accounts in force;

(d) That, under the terms of this resolution, a Working Group was set up composed of representatives of the Central Banks, or equivalent authorities, of the Latin American clearing-accounts countries;

(e) That, at its first session (Montevideo, 29 April -10 May 1957), this Central Banks Working Group on a Multilateral Payments System, besides discussing the progress of the technical studies referred to, reached agreement on various points relating to draft agreements and to the procedures to be observed by the Central Banks, or equivalent authorities, of the countries between which bilateral agreements are in force, in order to put the principles and measures mentioned in paragraph (c) of this preamble into effect;

(f) That it is proposed to hold a second session of this Working Group,

/Decides:

Decides:

1. To take note with satisfaction of the report on the results of the work of the Trade Committee at its first session, in so far as an intra-regional payments system is concerned, and to endorse resolution 1(I) of the aforesaid Committee;

2. To take note with satisfaction of the report on the first session of the Central Banks Working Group on a Multilateral Payments System;

3. To take note of the fact that the Latin American clearing-accounts countries are prepared to study the possibility of undertaking, during the second session of the Central Banks Working Group and immediately thereafter, a study of the agreements in force for each pair of contracting parties in Latin America. This study will relate to those agreements which, in the opinion of the countries themselves, require revision in order to bring them into line, so far as may be consistent with the situation and characteristics of trade between each pair of countries, with the draft standard payments agreement adopted at the first session of the Central Banks Working Group, subject to any adjustments that may be agreed upon by the parties before the second session;

4. To request the secretariat that it provide technical and secretarial assistance to that same group of countries in carrying out this study;

5. To request the secretariat that it transmit to the Trade Committee and to the Latin American clearing-accounts countries the observations formulated during this seventh session on the draft standard agreement on payments and procedures prepared by the Central Banks Working Group on Multilateral Payments System, so that the countries in question may bear them in mind when revising existing agreements or negotiating new ones.

14 May 1957

Resolution 116 (VII)

LATIN AMERICAN REGIONAL MARKET
(E/CN.12/457)

The Economic Commission for Latin America,

Considering:

(a) That the Trade Committee, established under the terms of

/resolution 101(VI)

resolution 101(VI) adopted at the sixth session, held its first session at Santiago, Chile, in November 1956, and has presented a report on the result of its work (E/CN.12/423) to the current session of the Commission;

(b) That it is desirable to complete the studies specifically relating to the creation of a regional market in Latin America;

(c) That the trends indicated in document E/CN.12/C.1/4, presented at the first session of the Trade Committee, have become more clearly marked since that date, a development which might have unfavourable repercussions on Latin America's extra-regional and intra-regional trade;

(d) That resolutions 46(V), 69(V) and 101(VI) recommended to the secretariat and to the Trade Committee that they devote special attention to the trade of those Latin American countries which are landlocked, or whose economic structure is based on a single branch of production or is little diversified;

(e) That greater mobility of capital among the Latin American countries would be advantageous;

(f) That it is desirable for the regional market to be gradually extended until it covers Latin America as a whole, in order to increase the benefits and possibilities of fuller development and economic integration which such a market may offer;

Decides:

1. To congratulate the secretariat on the efficiency with which it has discharged its responsibilities pursuant to resolution 101 (VI);

2. To express satisfaction at the success of the Trade Committee's first session, to take note with satisfaction of all those aspects of its report relating to the regional market, and to endorse resolutions 2(I) and 3(I) of the aforesaid Committee;

3. To take note of the instructions to the secretariat both as regards the inventory of existing industries in Latin America and with respect to the convening of a group of experts to undertake the work pursuant to resolution 3 (I);

4. To recommend to the secretariat:

(a) That it consider the desirability of expediting the implementation,

/within the

within the shortest possible time, of resolutions 2(I) and 3(I) of the Trade Committee, with a view to taking a more decisive step towards their underlying objective;

(b) That it conduct research and compile all data that may serve as a basis for the work of the Group of Experts mentioned in resolution 3(I), at the earliest opportunity, so that the availability of such background information may facilitate the task of the Group;

(c) That it call the attention of the Group of Experts to the specific situation of those Latin American countries which are landlocked or whose economic structure is dependent on a single branch of production or lacks diversification, so that the Group may consider, in planning the structure of the regional market, the possibilities for the absorption of the exportable commodities of such countries and for facilitating their industrial development within such a market;

(d) That it also request the Group of Experts to consider, in planning the structure of the regional market, the desirability of facilitating the formation of enterprises with capital supplied jointly from two or more countries;

(e) That it request this Group to study the problems facing the development of a regional market, in which study consideration would be given to each and every Latin American country, bearing in mind its situation and possibilities;

5. To empower the secretariat to request, should it deem this necessary, the collaboration of other competent international agencies in the preparation of the studies or compilation of the data referred to in paragraph 4, items (a) and (b).

27 May 1957

Resolution 117 (VII)

REPORT ON PAYMENTS AND THE REGIONAL MARKET TO GOVERN-
MENTS AND THE ECONOMIC CONFERENCE OF THE
ORGANIZATION OF AMERICAN STATES
(E/CN.12/458)

The Economic Commission for Latin America,

/Considering:

Considering:

(a) That, in August 1957, an Inter-American Economic Conference, convened by the Organization of American States, is to be held in the city of Buenos Aires;

(b) That one of the items on the agenda for this conference is the "promotion of inter-Latin American trade";

(c) That ECLA has made considerable progress in this field through its Trade Committee, the Central Banks' Working Group of a Multilateral Payments System, and several studies carried out by the secretariat;

(d) That, in conformity with resolutions 31(IV), 70(V), 106(VI) and 107(VI), on co-operation and co-ordination of the work of ECLA and the Inter-American Economic and Social Council in their respective spheres of activity, it is highly advisable to avoid duplication of effort or of expenditure;

(e) That, consequently, it is from every point of view desirable that a complete report on the work carried out and scheduled by ECLA in the same field up to the date of the aforesaid conference be presented to the countries participating therein,

Decides that, for purposes of information, the ECLA secretariat shall transmit to the secretariat of IA-ECOSOC for the aforesaid Economic Conference of the Organization of American States, and, in advance, to the Governments of the countries participating therein, a full report on the studies carried out, under way or scheduled up to that date in relation to the problem of payments and the possibility of creating a regional market in Latin America, with a view to co-ordinating the efforts of ECLA and IA-ECOSOC and preventing the duplication of their activities;

Declares that it would view with satisfaction any co-operation that the secretariat of IA-ECOSOC might extend to the ECLA secretariat in proceeding with the studies on inter-Latin American trade.

27 May 1957

/Resolution 118(VII)

Resolution 118 (VII)

SESSION OF THE TRADE COMMITTEE
(E/CN.12/459)

The Economic Commission for Latin America,

Considering:

(a) That, in accordance with resolution 101(VI) the ECLA Trade Committee was created and met for the first time at Santiago, Chile, in November 1956;

(b) That the work which has been undertaken pursuant to the resolutions of this Committee is progressing satisfactorily;

(c) That, in compliance with resolution 1(I) of the Trade Committee, the Central Banks Working Group on a Multilateral Payments System has already met at Montevideo;

(d) That the secretariat of the Commission has announced that, in pursuance of resolution 3(I), a group of experts will meet in the second half of the current year to study the possible structure of a regional market which will help to promote the rational development of Latin American Industries,

Requests the secretariat to make the necessary arrangements for the Trade Committee to hold its second session during 1958.

27 May 1957

Resolution 119 (VII)

STUDY ON COMMODITY TRADE
(E/CN.12/460)

The Economic Commission for Latin America,

Considering:

(a) That its member States are at present endeavouring to seek formulae and procedures which will promote the transition from a bilateral to a multilateral system of reciprocal payments;

/(b) That, to

(b) That, to this effect, the Trade Committee adopted resolutions 1(I) and 4(I), at its first session;

(c) That over-all payments equilibrium in Latin America depends, in the final analysis, on the elimination of structural economic causes tending to keep certain countries of the region in a permanent debtor position;

(d) That the need to eliminate such conditions and encourage trade, both intra-regional and with the rest of the world, gave rise to resolution 101(VI), adopted at the sixth session held at Bogotá;

(e) That the development of intra-regional trade in conditions of steady expansion and, as far as possible, of equilibrium, is a basic requisite for the establishment and maintenance of a multilateral payments system and likewise for extending the participation of the Latin American countries in world trade,

Decides:

1. To take account of resolution 4(I) of the Trade Committee;
2. To recommend to the secretariat that it continue and intensify its studies on inter-Latin American trade, principally with a view (i) to suggesting measures whereby the aforesaid structural disequilibria in the balance-of-payments situation of some Latin American countries may be remedied, (ii) to expanding trade both within and outside the region at increasingly high levels, and (iii) to expediting the transition towards greater liberalization of trade and a multilateral payments system.

27 May 1957

Resolution 120(VII)

INTER-LATIN AMERICAN TRANSPORTS
(E/CN.12/461)

The Economic Commission for Latin America,

Considering:

(a) That the existence of satisfactory means of maritime transport and their co-ordination with land transport routes and inland waterways is a requisite for the expansion of inter-Latin-American trade;

/(b) That at

(b) That at the present time the defects of the transport system, and especially the existence of inadequately served trade routes, constitute an obstacle to the maintenance of regular trade relations between certain zones of Latin America;

(c) That chapter IV of the secretariat report entitled Study of inter-Latin American trade (E/CN.12/369/Rev.1) contains background material useful for research into possible solutions for such problems;

(d) That resolution 101(VI) assigns to the Trade Committee the responsibility of preparing specific formulae for the removal of obstacles to inter-Latin-American trade, among them the problem of transport,

Decides:

1. To recommend to the secretariat that, after prior consultation with the secretariat of the Inter-American Economic and Social Council to avoid duplication, it continue the studies on inter-Latin American transport and the problems thereof, especially inadequately served trade routes, in order to guide countries in the adoption of measures designed to impart greater regularity to inter-Latin American maritime transport;

2. To recommend to the Trade Committee that it devote particular attention to questions relating to transport, and include the relevant items on the agenda of its forthcoming session.

27 May 1957

Resolution 121 (VII)

REPERCUSSIONS OF THE EUROPEAN COMMON MARKET
(E/CN.12/462)

The Economic Commission for Latin America,

Considering:

(a) That it is of great importance for all the Latin American countries to continue to observe the experiments in economic integration in progress in Europe and projected in other areas;

(b) That, under the terms of resolution 102 (VI), this Commission recommended to the secretariat that, in co-operation with the Department of Economic and Social Affairs of the United Nations, it should continue

/the analysis

the analysis of the markets for those basic commodities which are of decisive importance for the economies of the Latin American countries;

(c) That both the stability and the prosperity of the economies of the Latin American countries, as well as the possibilities of their development at a satisfactory rate, largely depend on the volume and value of their exports of primary commodities, which in turn are conditioned by the situation of the available markets;

(d) That the creation of the European Economic Community and the possible formation of a free trade zone in Europe may have repercussions on the sales prospects and prices of Latin American primary commodities on the world markets, to an extent not yet possible to assess;

(e) That the trend towards European economic integration, while deserving the fullest sympathy of the Latin American countries, arouses in them some apprehension as to the implications of the establishment, at any rate for a time, of a preferential trade system and as to a possible decrease in the rate of growth of European investment in Latin America,

Decides:

1. To take note with interest of the preliminary study (E/CN.12/449 and Add.1) presented by the secretariat on the possible repercussions of the European common market on Latin America's export trade;

2. To recommend to the secretariat that it continue to observe closely the economic integration of Europe and other areas, and that it keep the member Governments supplied with the relevant information;

3. To recommend to the secretariat that it carry out studies on world market prospects for Latin American primary commodities taking into consideration in particular the consequences that may arise from the European common market, from the possible establishment of a free trade zone in Europe, and from other similar projects;

4. To recommend that these studies be conducted along broad lines, so that they cover both the indirect effects on Latin American trade of the possible repercussions of European integration on third areas, and also the probable trend of trade in Latin American primary commodities over a reasonable future period;

5. To suggest that the secretariat endeavour to co-ordinate the execution of such studies with others of a similar nature undertaken by the secretariats of the General Agreement on Tariffs and Trade, the

/Economic Commission

Economic Commission for Europe, the Economic Commission for Asia and the Far East, and by other competent United Nations agencies;

6. To make the following recommendations to the member countries of the Commission, especially those of Latin America: (a) that they consider the desirability of carrying out consultations on the possible repercussions of the European common market; and (b) that they send representatives, in an appropriate capacity, to international conferences at which questions bearing on the European common market and its possible effects on Latin America's economy and trade are considered.

27 May 1957

Resolution 122(VII)

TRADE OF LANDLOCKED COUNTRIES
(E/CN.12/463)

The Economic Commission for Latin America,

Whereas:

(a) At their plenary meetings on 9 August 1956 and 20 February 1957, the Economic and Social Council and the General Assembly adopted, respectively, resolutions 614 (XXII) and 1028 (XI), in the first of which the attention of the United Nations regional economic commissions is called "to the advisability of studying difficulties preventing expansion of international trade", while in the second the Governments of Member States are invited "to give full recognition to the needs of landlocked Members in the matter of transit trade";

(b) The economic development of landlocked countries is largely determined by satisfactory transit trade conditions which permit them satisfactorily to expand their international trade,
Decides to recommend to the Governments of the Member States the desirability of granting the greatest possible facilities for the expansion of the international trade of landlocked countries.

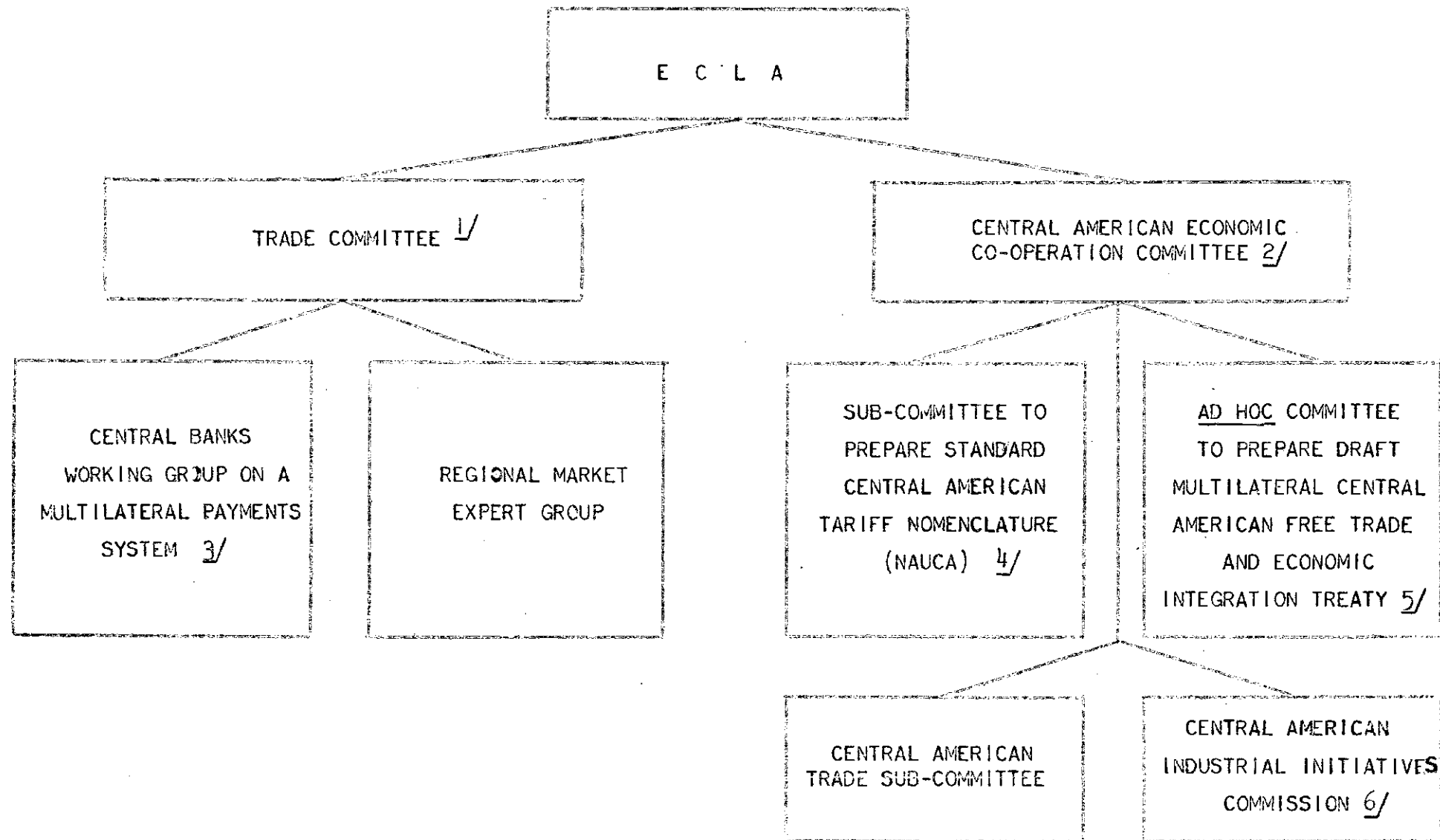
27 May 1957

/III

III

ORGANIZATION OF ACTIVITIES RELATING TO TRADE UNDERTAKEN
BY THE ECONOMIC COMMISSION FOR LATIN AMERICA

On the following page a diagram is presented showing the organization of the Commission's activities relating to trade. Since the present report contains only passing references to the Central American Economic Integration Programme, it was considered desirable to insert a short note on the Commission's efforts to promote inter-Central American trade and the economic integration of the countries of that area.



1/ FORMED BY REPRESENTATIVES OF ALL THE GOVERNMENTS MEMBERS OF THE COMMISSION.

2/ FORMED BY REPRESENTATIVES OF THE GOVERNMENTS OF COSTA RICA, EL SALVADOR, GUATEMALA, HONDURAS AND NICARAGUA.

3/ FIRST SESSION HELD AT MONTEVIDEO, URUGUAY, IN MAY 1957.

4/ MET AT TEGUCIGALPA, HONDURAS, FROM NOVEMBER 1952 TO MARCH 1953.

5/ MET AT MEXICO CITY IN MARCH 1956.

6/ FIRST SESSION HELD AT GUATEMALA CITY IN JULY 1956.

NOTE ON ECLA ACTIVITIES TO PROMOTE INTER-CENTRAL AMERICAN
TRADE AND THE ECONOMIC INTEGRATION OF THE AREA 1/

The Central American Economic Co-operation Committee (formed by the Governments of Costa Rica, El Salvador, Guatemala, Honduras and Nicaragua), established pursuant to resolution 9(IV) adopted by ECLA at its fourth session (Mexico, June 1951), decided at its first session (Tegucigalpa, Honduras, August 1952) to embark upon a gradual and progressive programme for the integration of the Central American economies, on a basis of co-operation and reciprocity among the five Governments. The promotion of inter-Central American trade is, by definition, one of the instruments of this integration, precisely one of the principal aims of which is the formation of broader markets through trade in the commodities produced by the Central American countries.

From the outset of its activities in August 1952, the Committee recognized that one of the first tasks of a practical nature which might be undertaken, to provide a background for subsequent studies on trade policy and the promotion of inter-Central American trade, would be the preparation of a standard tariff nomenclature. Consequently, during the session it was decided that a Sub-Committee for the Standardization of Customs Tariff Nomenclature should be set up (resolution 9(AC.17)). This sub-committee spent over three months on the preparation of a draft standard Central American tariff nomenclature (NAUCA), which was afterwards submitted to the Committee. 2/

At its second session (October 1953) the Committee approved the NAUCA, and recommended to the Central American Governments that they should adopt it; at the same time it requested that a coding manual should be prepared 3/, and decided to set up a Central American Trade Sub-Committee, among the

1/ This note is intended to explain the diagram on the preceding page, by supplying certain data on the Central American Programme.

2/ The NAUCA and, subsequently, the Coding Manual were prepared with the technical collaboration of the United Nations Statistical Office and the Inter-American Institute of Statistics.

3/ Both these documents are contained in E/CN.12/420, United Nations publication, Sales No.: 1955.II.G.3.

functions of which were those of preparing a draft standard customs code and regulations for Central America and of studying the equalization of tariffs for certain commodities in inter-Central American trade (resolution 18(AC.17)). The Sub-Committee has held several meetings, at which it has considered the coding manual for the NAUCA with some later amendments and additions, the standard tariff nomenclature for export commodities, the draft standard customs code and regulations for Central America, a number of aspects of the problem of tariff equalization, etc.

Apart from its important role in the preparation of the NAUCA, of the coding manual for this latter and of the standard exports nomenclature, ECLA prepared two studies, one on análisis y Perspectivas del Comercio Inter-centroamericano (Analysis and Prospects of Inter-Central American Trade) (E/CN.12/CCE/10) and the other on Política Comercial y Libre Comercio en Centroamérica (Trade Policy and Free Trade in Central America) (E/CN.12/CCE/11).

At its third session, (January 1956) the Economic Co-operation Committee decided that an Ad Hoc Committee composed of delegations from the Central American countries should be set up to prepare a draft multilateral Central American free trade and economic integration treaty and to study the commodities to be included in the free trade list (resolution 23(CCE)). The Ad Hoc Committee met in March 1956 at the Mexico office of the ECLA secretariat, and on the basis of the secretariat's preliminary draft and studies or notes on commodities, prepared a draft multilateral treaty, considered the list of commodities which it might cover and submitted a report to the Committee (E/CN.12/CCE/67). The Committee decided, at its fourth session (February 1957), that this draft should be recommended to the Central American Governments for their study and consideration, with a view to its being signed by them within a reasonably short time (resolution 37(CCE)). Pursuant to another resolution (24(CCE)), adopted by the Committee at its third session, the secretariat has recently prepared such background documents as will enable the Central American Trade Sub-Committee to draft a basis for the equalization of tariffs in the Central American countries, as a preliminary step towards the constitution of a customs union. The Sub-Committee will meet in September 1957.

/Still in

Still in direct connexion with the economic integration of Central America, the Economic Co-operation Committee requested the secretariat, in resolution 26(CCE), also adopted at its third session, to draft a standard bill for regional integration industries. The completed bill was submitted to the consideration of a group of experts from the five Central American countries, which prepared the final draft and presented it to the Committee at its fourth session (E/CN.12/CCE/68). The latter decided to recommend it to the Central American Governments for their signature (resolution 38(CCE)).

Mention must lastly be made of the fact that, at its third session, the Committee felt that the time was ripe to secure the increased participation of private initiative in the industrial aspects of the integration programme. To this end, it created (resolution 28(CCE)) the Central American Industrial Initiatives Commission, composed of representatives of the Governments and of private initiative. The aims of this Commission include the exchange of information on industrial undertakings and projects and the examination of practical measures for furthering the technical and economic studies required for the more satisfactory development of the industries concerned, the expansion of market possibilities in Central America and the inter-relation and correlation of various types of industries. The Industrial Initiatives Commission met for the first time in July 1956 and discussed a considerable number of undertakings which might form part of the integration programme or which are important for the industrial development of the Central American countries. The relevant report (E/CN.12/CCE/9) was considered by the Economic Co-operation Committee at its fourth session. It was decided to recommend to the Governments that they adopt various measures connected with the activities of the Industrial Initiatives Commission, and this latter and the secretariat were requested to prepare given studies and to examine certain surveys and reports already completed or under way on specific industries.

IV

BRIEF CHRONOLOGICAL REVIEW OF ECLA ACTIVITIES RELATING
TO INTER-LATIN AMERICAN TRADE 1/

A chronological outline of the events and the activities of the Commission leading up to the present stage of the work on inter-Latin American trade is given below. A number of conclusions and reflections might be deduced from this brief review, but to deal with them here would be to elaborate unnecessarily on considerations already formulated in the text of the report proper. Suffice it to point out that during these seven years of activity in the field of intra-regional trade, the Commission has developed an effective system of ideas, and the relevant problems have been tackled more and more methodically. This process has taken concrete shape in the creation of the Trade Committee and of the working groups and groups of experts that the Governments represented on the Committee have decided to convene so that practical solutions may be more effectively sought.

The aforesaid process may be summed up under the following twelve heads:

- (1) June 1950: the secretariat completed and presented to the third session, held at Montevideo, Uruguay, the report entitled Trade trends and policies in Latin America (E/CN.12/165), which constitutes an exploratory and experimental study of inter-Latin American trade. On 19 June 1950, the Commission adopted a resolution on Intra-regional Trade (E/CN.12/201), requesting the secretariat to "prepare studies of a small number of products or services which may.....lead to an expansion of trade between the Latin American countries, or between some of them", and also "to study other means of expanding trade within the region".

1/ Only those events and studies most closely connected with this topic are included here. Consequently, activities relating to Central American economic integration are not dealt with at this point, although some reference is made to them in the text of the report. In this connexion, the reader is referred to the study Central American Economic Integration: development and prospects (E/CN.12/422), United Nations publication, Sales No.: 1956.II.G.4 (Spanish only), and to the note appended to annex III.

/(2) June 1950

- (2) June 1950-June 1951: during the fourth session, held at Mexico City, the secretariat reported to the Commission (E/CN.12/228) on the status of the study which it had been requested to carry out at the third session, and the Commission decided to amend the resolution cited in sub-paragraph (1), by widening the scope of the studies requested therein of the secretariat, mainly with a view to the preparation of "a study of the possibilities of the expansion of trade between the Latin American countries", which should give "special attention to the study of the relation of inter-Latin American trade to the co-ordination of national economic units within over-all plans for joint and harmonious development". The same resolution (20(IV)) recommended the secretariat to call "a special meeting of experts in foreign trade".
- (3) July 1952-April 1953: apart from these specific studies, but in close connexion with them, the secretariat considered the difficulties of increasing Latin America's exports to world markets, and, in collaboration with the United Nations Food and Agriculture Organization and the Economic Commission for Europe, prepared a Study of trade between Latin America and Europe, the printed edition of which was presented to the fifth session of the Commission, held at Rio de Janeiro, Brazil. ^{2/}
- (4) July 1952-April 1953: in conformity with resolution 20(IV), adopted at the fourth session, the secretariat prepared the report therein requested, and presented to the fifth session the Study of the prospects of inter-Latin American trade (Southern zone of the region) (E/CN.12/304). The Commission took note of the report, and once more extended the secretariat's terms of reference with respect to the study of inter-Latin American trade, particularly recommending, in resolution 69(V), that it should "broaden the scope of its research into co-operation among the Latin American countries with respect to economic

^{2/} United Nations publication, Sales No.: 1952.II.G.2.

policy, in such a way that practical solutions may be found for the problems affecting the development of trade, and should, in addition, study the possibility of formulating the bases of a commercial policy for Latin American trade". And, for this purpose, the resolution mentions a series of specific problems to be studied by the secretariat.

- (5) May 1953-April 1954: the secretariat thoroughly revised the study mentioned in sub-paragraph (4) and published it in its final printed form. ^{3/}
- (6) May 1953-August 1955: in compliance with resolution 69(V), the secretariat prepared a fuller and more comprehensive analysis of intra-regional trade problems, and presented to the sixth session, held at Bogotá, a preliminary version of the Study of inter-Latin American trade (E/CN.12/369). The Commission considered that this report "constitutes a very considerable advance in the sphere of research into the problems of inter-Latin American trade, and... ..enables an examination of specific solutions aimed at intensifying such trade to be undertaken". A decision was adopted "to set up within the Economic Commission for Latin America a Trade Committee formed by member countries for the purpose of intensifying inter-Latin American trade - without prejudice to the expansion of trade with other regions and mindful of the fundamental necessity of increasing over-all world trade - through a solution of the practical problems which hamper or delay such trade and the preparation of bases to facilitate trade negotiations" (see resolution 101(VI)). The Commission also decided that the Trade Committee should concern itself with the preparation of specific proposals and "shall bear in mind the topics covered in the secretariat's report (E/CN.12/369), such as the problems of inter-Latin American payments; trade policy; specific questions of maritime transport and the trade in given products; and, similarly,

^{3/} E/CN.12/304/Rev.2, United Nations publication, Sales No.: 1953.II.G.4.

/the other

the other studies and subjects the analysis of which may lead to the achievement of the objectives which caused its establishment". Furthermore, "in discharging its functions, the Trade Committee shall consider in detail and make full use of the studies on the subjects recommended by the present resolution carried out by the Inter-American Economic and Social Council and other international organizations".

- (7) September 1955-October 1956: pursuant to resolution 101(VI) and with a view to preparing for the first session of the Trade Committee, the secretariat appointed an ad hoc group of experts to visit the authorities most closely connected with the intra-regional trade of those countries of South America which maintain bilateral trade agreements among themselves, and to ascertain their opinions on trade and payments problems in the region. The findings of this survey are to be found in the documents Payments and trade in Latin America (E/CN.12/C.1/3), Payments and the regional market in inter-Latin American trade (E/CN.12/C.1/4) and Inter-Latin American commodity trade in 1954 and 1955: situation and prospects in 1956 (E/CN.12/C.1/5), which were distributed to Governments in due course. In addition, the secretariat published the printed edition of the Study of inter-Latin American trade, after subjecting it to the necessary technical revision and bringing statistics up to date. ^{4/}
- (8) November 1956: on the basis of the technical information provided in the documents mentioned in the preceding sub-paragraph, the Trade Committee held its first session at the headquarters of the Commission in Santiago, Chile, and adopted important decisions concerning the gradual building-up of a system for the multilateral compensation of payments (resolution 1(I)); the studies required and the procedure to be utilized for the creation of a regional market to promote trade, especially in manufactured goods (resolutions 2(I) and 3(I)); and the liberalization of Latin American trade in traditional commodities (resolution 4(I)).

^{4/} United Nations publication, Sales No.: 1956.II.G.3.

- (9) December 1956-February 1957: the secretariat collected and issued in a single volume the report of the first session of the Trade Committee and the documents mentioned in sub-paragraph (8), and distributed them to Governments under the title of Inter-Latin American trade: Current problem. ^{5/}
- (10) January-March 1957: the basic facts to be considered in relation to the introduction of a system for the compensation of balances in bilateral accounts in inter-Latin American trade were set forth and analysed in three secretariat documents, Compensation of balances in inter-Latin American trade (E/CN.12/C.1/WG.1/1), Registration of operations transacted through inter-Latin American clearing accounts and exchange of comparable data (E/CN.12/C.1/WG.1/2) and Bases for a draft standard agreement on a payments régime (E/CN.12/C.1/WG.1/3). These background documents provided a basis for the discussions of the Central Banks Working Group on a Multilateral Payments System, which, in conformity with resolution 1(I) of the Trade Committee, met at Montevideo, Uruguay, from 29 April to 10 May. The Working Group considered the possibility of establishing a series of joint measures for the gradual elimination of the inflexibility of inter-Latin American trade resulting from the bilateral trade and payments system. The resolutions adopted by the representatives of the Central Banks of the countries engaging in bilateral trade - resolutions which these countries have begun to put into practice in their reciprocal trade relations - represented a first step towards the adoption of broad multilateral solutions for the problem of trade and payments in Latin America. An account of the proceedings at the session of the Working Group was given in the report submitted to the Trade Committee, which this latter will consider at its second session. ^{6/} The resolutions adopted by the Group included

^{5/} E/CN.12/423, United Nations publication, Sales No.: 1957.II.G.5.

^{6/} See document E/CN.12/C.1/WG.1/5, which is being transmitted separately for informative purposes.

/the decision

the decision to hold its second session at Rio de Janeiro, Brazil, at a date to be fixed by the secretariat, in order to evaluate the results of the measures agreed upon and to study a satisfactory formula for a more complete compensatory payments system.

(11) April-May 1957: in addition to the work on payments reviewed above, and in connexion with its activities relating to the regional market, the secretariat compiled data on the European common market in a brief report and made a preliminary analysis of their bearing on Latin America's foreign trade. ^{7/} It likewise brought up to date, in another document, the necessary information on the activities of the Trade Committee. ^{8/} Both reports were submitted for consideration at the seventh session, held at La Paz, Bolivia, from 15 to 29 May.

The Commission adopted the resolutions approved by the Trade Committee and took note of the report submitted to the Committee by the Central Banks Working Group. The problems of payments and a regional market in inter-Latin American trade were fully discussed, together with the possible repercussions of the European common market on Latin America's exports and capital imports. ^{9/} The Commission adopted various resolutions relating to trade, ^{10/} outstanding among which were those expressing satisfaction with the work on payments and a regional market already under way, and another requesting that the Regional Market Expert Group should meet at the earliest possible opportunity.

^{7/} See Note by the secretariat on the possible repercussions of the European common market on Latin American exports (E/CN.12/449 and Add.1).

^{8/} Progress report by the secretariat on the work of the Trade Committee.

^{9/} Annex I contains the report of Committee I (Trade) of the seventh session, which gives an account of the discussion on all these topics.

^{10/} The text of all these resolutions is given in annex II of the present report.

- (12) June-July 1957: the secretariat is proceeding with its studies and activities in connexion, on the one hand, with the implementation of the recommendations of the Central Banks Working Group and the preparations for the second session of the Group in question, and, on the other, with the research and other work preliminary to the session of the Regional Market Expert Group which is in principle expected to take place at the end of 1957. Progress is also being made in the other studies and research work requested of the secretariat at ECLA's seventh session.

