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BASES FOR THE FORMATION OF THE LATIN
AMERICAN REGIONAL MARKET

Report of the first session of the Working Group

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BACKGROUND DATA

Pursuant to resolution 116(VII), adopted by the Commission at its seventh session, the secretariat invited a group of prominent Latin Americans to take part in a discussion on the problems of the regional market in Latin America, under the terms of reference specified in the said resolution for the Working Group on this topic.

The Group was composed of the following members:

Mr. José Garrido Torres, President of the National Council of
Economy of Brazil

Mr. Rodrigo Gómez, Director-General of the Banco Mexico, S.A., Mexico

Mr. Flavián Levine, Professor of the University of Chile and
Executive Vice-President of the Compañía de Acero del
Pacífico (Huachipato)

Mr. Eustaquio Méndez Delfino, President of the Buenos Aires Stock
Exchange and former President of the Honorary National
Commission of Economy and Finance of Argentina

Mr. Juan Pardo Heeren, former Minister of Finance of Peru

Mr. Galo Plaza, former President of the Republic of Ecuador

Mr. Joaquín Vallejo, former Minister of Development of Colombia

The Group met at the Headquarters of the ECLA secretariat from 3 to 11 February 1958. Its members elected Mr. Galo Plaza Chairman and Mr. Joaquín Vallejo Rapporteur.

The secretariat of the Group was constituted by the following:

Executive Secretary

Mr. Raúl Prebisch

Deputy Director

Mr. Louis N. Swenson

Secretary of the Commission

Mr. Alfonso Santa Cruz

Secretary of the Session

Mr. Esteban Iovovich, Chief,
Inter-Latin American
Trade Section

Consultants:

Mr. Fernando Illanes,
Consultant on trade
policy

Mr. Jorge Ahumada, Chief,
Economic Development
Division

/Consultants: (Contd.)

Consultants:(Contd.)

Mr. Carlos Quintana, Chief, Industrial
Development Division

Mr. Nuno de Figueiredo, Co-ordinator of
Regional Market Studies

Mr. Santiago Macario, Deputy Chief,
Inter-Latin American Trade Section

Bearing in mind the substance of the resolutions discussed in Annex I, the Group based its discussions on the studies and reports transmitted to it by the secretariat and the documents submitted to it in the course of its deliberations, details of which are given in the same annex.

As a result of its discussions, the Group adopted the report which follows, resolving at its final meeting that the secretariat should transmit the said report, with the suggestions and recommendations contained therein and with such comments as the secretariat might deem appropriate, to the Governments members of the Commission. The Group likewise agreed that its conclusions should be disseminated as widely and as quickly as possible.

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BASES FOR THE FORMATION OF THE LATIN AMERICAN REGIONAL MARKET

I. INTRODUCTION

The social need to develop the Latin American countries makes it a matter of increasing urgency to devise effective ways and means of accelerating the rate of growth of their real per capita income. It is now fully recognized that such ways and means must necessarily be based on the technical improvements in agriculture and the progressive industrialization of the countries in question. Modern technology offers an almost unlimited potential for the attainment of these ends, as is testified by the experiments of paramount historical importance which are being carried out before our eyes. Will Latin America be able to take full advantage of this potential? A formidable obstacle stands in the way. Industrialization calls for an extensive market without which the countries of the region will be unable to achieve the high level of productivity characteristic of the great industrial centres. Such a market could be available to Latin America, but it has been broken up into twenty watertight compartments. Now that a common market has been formed in Western Europe, that the Scandinavian peoples are making efforts in the same direction and that the countries of Eastern Europe are apparently engaged in a process of integration, Latin America constitutes the only large population group in the world which, in a vast territory endowed with a wealth of natural resources, is wasting for want of economic integration the immense potential represented by modern technology.

In 1955 the population of Latin America numbered some 175 million persons, and it is estimated that it will have increased by a further 100 million by 1975. The share of the active population in this increment should amount to approximately 38 million. If the trends registered in the last twenty years continue, out of this substantial addition to the region's labour force only 5 million will be absorbed by agricultural activities, or fewer still if, as is greatly to be desired, technical progress in agriculture is expedited. Thus about 33 million persons will be left to seek productive employment in other sectors; and of these a considerable proportion will have to be absorbed by the process of industrialization

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and under conditions of continuous technological progress. There will be a very serious waste of resources if the Latin American countries continue to pursue a policy of industrialization in watertight compartments.

ECLA has viewed this problem in a clear light, and the member Governments agreed in principle upon the need to set up a regional market, first at the initial session of the Trade Committee, held in November 1956, and subsequently, in May 1957, at the seventh session of the Commission in La Paz. Likewise, at the recent inter-American economic conference in Buenos Aires (August 1957), the Governments categorically endorsed the proposal to create a Latin American regional market.^{1/}

In compliance with the instructions issued to it at the La Paz session, the secretariat has invited the present Working Group to co-operate in the preparatory work for putting this vitally important project into effect. For this purpose the Group has had a series of prior studies at its disposal. The concept of the economic integration of Latin America, which found early expression in ECLA's Economic Survey of Latin America 1949, has been progressively developed in subsequent documents. In this connexion, it should be pointed out that definite ideas on the regional market's structure first appear in the study entitled Payments and the regional market in inter-Latin American trade.^{2/} All this material has been

^{1/}Annex II of this report contains the text of the relevant resolutions adopted by ECLA and OAS.

^{2/}Note by the secretariat. The report in question was published under this title by the secretariat in 1956 and was prepared by the economists Mr. José Garrido Torres (Brazil) and Mr. Eusebio Campos (Argentina) in their capacity as consultants, after they had carried out a survey in various South American countries with the co-operation of the secretariat. The following were among the recommendations with which the report closed:

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

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

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

very useful to the Working Group, as have also the additional reports presented by the secretariat before and during the meetings of the Group.

Thus, the concept of the Latin American regional market has long been gradually taking shape, and the Group deems it a privilege to have had the present opportunity of giving it new impetus by formulating what should, in the Group's opinion, constitute the market's essential bases. The establishment of the European common market has rendered the creation of a Latin American regional market a more pressing need; in the first place because it shows how an idea that some years ago might have been considered utopian quickly gains ground when enlightened statesmen give it the support of their prestige and define it with conviction; and, secondly, because the European common market, undeniable as are its advantages for its six member countries and beneficial as its indirect repercussions may prove for Latin America, will produce in addition some adverse effects, mainly as a result of the preferential measures introduced in favour of the members' overseas territories. However much concerted action on the part of the Latin American countries may mitigate such effects, it would not be feasible to imagine that they can be entirely averted. Furthermore, the European common market will powerfully stimulate the technological revolution which is already taking place in the agriculture of the countries concerned, as well as in their production of synthetic raw materials; and all this is bound to have unfavourable consequences for the producer countries of Latin America.

A negative reaction, however, is not enough. Latin America's positive reaction must be the creation of the regional market. The time is ripe to take this step resolutely and without detriment to the region's advantageous trade relations with the great industrial centres. Latin America will continue to buy from them in so far as they absorb its exports, which the countries of the region will have to promote to the fullest possible extent. But the composition of Latin American imports must be further modified and brought into line with the capacity for external payments. If this process is carried out within the broad framework of the regional market, Latin American industry will be vigorously spurred on towards new and more efficacious forms of expansion, with favourable

consequences for the economic development of the region. In the course of this task of substituting domestic production for imports, the sooner Latin America speeds up its production of capital goods, which at present are imported because their manufacture in watertight compartments is anti-economic, the sooner will the region be able to counter such foreign trade setbacks as may accompany the advantages attendant upon the European common market.

From another point of view, it would be a mistake to consider that the main justification of the common market lies in the incentives it will afford to the production of capital goods and intermediate products that require complex processing. This applies especially to the more advanced of the Latin American countries, where conditions have been becoming increasingly favourable for the establishment of such activities; but the vast possibilities for expansion, consolidation and specialization among existing consumer goods industries, as well as those others which will undoubtedly come into being by virtue of the regional market, must not be overlooked.

The situation of the less advanced countries is also of vital importance. The system of watertight compartments has virtually cut them off from the favourable effects of industrialization in the more highly developed countries. The significance of this problem is obvious, and the regional market must provide the indispensable conditions for its solution. The less developed countries of the region will have to find the decisive stimulus to their own industrialization in rising levels of consumption in those that have reached a higher stage of development. This calls for special treatment. If the treatment accorded in the regional market were to be exactly the same for countries at different stages of the industrialization process, the inequalities would tend to be perpetuated. To reduce and finally eliminate them, special incentives to the industrial development of the less advanced countries will have to be provided, for the mutual benefit of both groups.

Bearing in mind these considerations and others which will be discussed later, and in conformity with its terms of reference, the

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Group presents the following bases on which the Latin American regional market may be established. In formulating them, the Group has been guided first and foremost by the idea that such bases will be effective only in so far as they offer ample opportunities to private enterprise and its achievements. The Governments will plan the structure of the regional market, but it will be for private enterprise to give it life; and in the pursuit of this aim, the countries concerned will have to take special care that their legitimate efforts towards industrialization do not deprive agriculture and the infrastructure of essential resources, thus jeopardizing the balanced development of their economy and, in the final issue, weakening their rate of growth.

On these foundations it will be possible to build up the specific projects which the Governments members of the Commission have requested this Working Group to recommend. To this end a series of analyses will have to be carried out on the lines suggested to the secretariat in the third part of the present document, in which comments are presented concerning the bases enumerated below.

/II. ENUMERATION

II. ENUMERATION OF THE BASES

I. Universality of membership in the regional market

Membership in the regional market must be open to all the Latin American countries, for which reason it is essential that conditions acceptable to all of them be established from the outset.

The universal nature of the regional market agreement does not, however, imply that countries closely linked by geographical proximity or common economic interests shall not be empowered to enter into negotiations among themselves. But it is essential that these negotiations be effected within the framework of a general agreement, and along such lines that the reciprocal concessions involved are not exclusive and are automatically extended to other member countries, or to such countries as may become members in the future if all do not accede to the initial agreement.

II. Range of the regional market in respect of commodities

The ultimate aim of the regional market must be the inclusion of all goods produced within its area. This concept does not mean, however, that the regional market must become effective immediately for all such goods. It only implies that the agreement will have to establish procedures and time-limits for the progressive abolition of those customs duties and restrictions which nowadays hamper or prevent inter-Latin American trade. In other words, the agreement must be immediate but its implementation gradual.

Once this principle is established, various ways of putting it into practice are conceivable, which must be carefully examined before final recommendations are made.

III. Development of the less advanced countries

The less advanced countries must be accorded special treatment to enable them, through progressive industrialization and the over-all strengthening of their economies, to share fully in the benefits of the regional market.

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With this end in view, their import duties and restrictions must be reduced more slowly than in the more advanced countries, in accordance with formulae to be studied; and such formulae must further establish facilities for exports from the countries in question, and especially for goods produced by their new industries and other activities, so as to ensure equitable trade reciprocity. In addition, other measures must be devised, especially of a financial nature, conducive to the more rapid development of the less advanced countries.

IV. The tariff system vis-à-vis the rest of the world

One implication of the regional market is that it will be desirable eventually to establish a single customs tariff vis-à-vis the rest of the world. But in some countries the tariff has been deprived of its protectionist role, and has been superseded by restrictive measures of various kinds. Until these are replaced by a new tariff, an interim system will have to be established to ensure the progressive abolition of such restrictions in the countries in question to an extent equivalent to the tariff reductions effected by other member countries.

V. Specialization in industries and other activities

The specialization in industries and other activities which is one of the objectives of the regional market must be the outcome of the free interplay of economic forces within the over-all conditions established by the agreement, and without precluding the pursuance of an investment policy calculated to further as effectively as possible the aims of the said agreement.

It is inconsistent with this principle to accord specific countries the exclusive right to install certain industries or activities, or to impose restrictions on free competition, except as regards the special features of the integration programme of the Central American countries, which in this context must be considered as a single unit, if such is the form of membership they desire.

/VI. The payments

VI. The payments system

In the interest of greater efficiency, the regional market must have a special system of multilateral payments conducive to maximum inter-Latin American trade reciprocity, and not detrimental to the possible participation of Latin America in the re-establishment of a more general multilateralism. It is essential that, under the system established, the member countries be protected against all exchange risks.

VII. Temporary import restrictions

Member countries must have the right to impose temporary import restrictions, in accordance with regulations to be laid down in the agreement, and provided that basic remedial measures of monetary, fiscal and economic policy are also adopted, when such a step is rendered necessary by:

- (a) The magnitude and persistence of the disequilibrium in their balance of payments with the other member countries; and
- (b) The need to facilitate reabsorption of manpower, in the course of the readjustments consequent upon the changing industrial structure.

VIII. Safeguard for agriculture

Member countries must have the right to restrict imports of agricultural commodities, limiting them to given proportions of the increment in consumption, should this be indispensable for the normal maintenance of agricultural activities.

IX. Rules of competition

To promote the smooth functioning of the regional market, steps must be taken to prevent the export trade of a member country from prejudicing, by means of unfair competitive practices, the activities of other member countries, either through competitive currency depreciation or by any other method.

Member countries must also refrain from discriminatory practices, so that export prices may be the same for any given commodity, irrespective of the market of destination.

/X. Credit

X. Credit and technical assistance

The regional market must be provided with an effective system of credit and technical assistance, both in order to stimulate intra-regional exports and with a view to furthering the installation and development of the industries concerned.

XI. The advisory body

The problems that the functioning of the regional market will involve call for the creation of an advisory body constituted by the member Governments, and the establishment of a system of arbitration.

XII. Role of private enterprise

For the formation of the regional market the agreement of the respective Governments is required. But the making of such a market a going concern will depend to a large extent on private enterprise, on its understanding of the problem and on its ability to turn to account the immense advantages offered by the regional market for industrialization, for the introduction of more advanced agricultural techniques and for over-all economic development.

It is, therefore, deemed highly desirable to enlist the active co-operation of the organizations representing private enterprise, in both the national and the international field, for the study and discussion of these problems.

/III. CONTENTS

III. COMMENTS ON THE BASES AND RECOMMENDATIONS

Bases I and II. Universality of membership in the regional market

The greater the number of countries and the wider the range of commodities included in the regional market, the greater will be the possibilities of reciprocal trade and the more flexible the market's operations, inasmuch as the liquidation of balances among member countries will be facilitated.

It therefore appears desirable that the agreement should be open for accession to all the Latin American countries and, at the same time, that formulae should be evolved flexible enough to allow countries in close geographical proximity or with specific interest in common to make mutual concessions. While such concessions may originally be designed to promote the mutual interests of the countries concerned, they should be extended to other member countries without any intent of exclusiveness.

As regards the commodities, a careful examination will have to be made of ways and means of gradually and progressively reducing duties and restrictions. Because of their complementarity or the fact that they have not yet been produced or are produced in only one country, in the case of certain commodities - for example, some traditional items of trade and also, to a large extent, capital goods and durable consumer goods, as well as some important intermediate products - the reduction of duties and restrictions could be embarked upon without any limitations. At the other extreme are the industries producing goods for current consumption. Here, reduction must be gradual and progressive in order to allow for adjustments and increased specialization in the various sectors and to avoid the serious maladjustments which would otherwise occur.

In considering this aspect of the regional market, the secretariat should take into account various methods of reduction, whether they refer to all commodities, to groups of similar or related commodities or to individual trade items.

/Basis III.

Basis III. Development of the less advanced countries

It is essential for the success of the regional market that the less advanced countries should find in it incentives, lacking at present, for vigorous industrialization. However, if such countries acceded to the agreement on the same terms as the more advanced countries, this objective would not be achieved because of the greater industrial productivity of the latter. To prevent this, various procedures must be studied. For example, it might be possible to maintain for a judicious period the reasonable amount of protection required by the industries of the less advanced countries which are working for their own internal market, while the duties and restrictions for the same and other industries in the more advanced countries are gradually eliminated. Another possibility would be to promote the establishment of export industries in the less advanced countries and to grant the necessary facilities for importing the products of these industries to the more advanced countries. All these alternatives must be considered.

At the same time, an analysis will have to be made of the manner in which credit facilities could be granted to these countries to help them finance their export industries. Furthermore, it is to be hoped that foreign capital might well find in the countries in question the incentives for industrial investment which are lacking today, since such investment would have at its disposal an extensive regional market instead of the narrow range of markets at present available.

This does not mean that the more advanced countries should make a sacrifice in favour of the others. Quite clearly, the interests involved are reciprocal. Under the preferential trade system which the regional market implies, the exports made by the less developed to the more developed countries will give the former a purchasing power that will largely be used to buy the manufactured products of the latter, particularly when the countries concerned succeed in establishing a multilateral system of payments which will encourage the utilization of credit balances within the regional market itself and which will reduce to a minimum the outflow of dollars or other freely convertible currencies to the rest of the world.

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Without these special arrangements, the more advanced countries would have great difficulty in selling their capital goods and other goods whose costs are higher than those in other parts of the world. Certainly, the enlargement of the market and the consequent increase in productivity will gradually bring costs closer to world levels. In the meanwhile, it would be logical to expect that the less developed countries will be unwilling to grant preferences in respect of such goods if they have to spend their hard currencies in order to purchase them, but if they are able to pay for them with additional exports, especially of manufactured goods, a wide field of mutual interest will be opened for both groups of countries.

Basis IV. The tariff system vis-à-vis the rest of the world

There are two ways of tackling the problem of a preferential policy: that of the free trade zone and that of adopting a single customs tariff vis-à-vis the rest of the world. The first method would have the advantage of not requiring any readjustment of existing tariffs vis-à-vis third countries: each country would maintain or establish vis-à-vis the rest of the world the duties which it desired - subject to the limitations imposed by the treaties in force -, and would undertake only to grant those progressive reductions which the agreement required for the other countries operating within the same system. However, in certain circumstances, the lack of a common tariff for certain commodities imported from third countries would have serious disadvantages.

On the other hand, it is no easy task to work out a common tariff. In particular, there are countries where the tariff has disappeared as the result of inflation and has been replaced by restrictions of a different kind. It might take time to re-establish the tariff, but there is no need to wait for this to happen before the common market agreement is concluded. Intermediate stages may be envisaged at once. The progressive reduction of duties and restrictions could be started within a free trade zone, while the decisive steps were being taken for the establishment of a common tariff. It would be advisable the secretariat to analyse the various alternatives in this field, including that for which provision is made

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in article XXV of the GATT, and at the same time, should devise suitable ways and means of gauging the magnitude of both the restrictions and the customs duties introduced for the purposes of reductions contemplated in this report.

Basis V. Specialization in industries and other activities

Many consumer goods industries in the Latin American countries may possibly have attained an apparently satisfactory size in comparison with their counterparts in the advanced industrial centres. However, a close examination will reveal that the smallness of the market in Latin America compels factories to produce an excessive variety of articles, while factories in the more advanced centres have reached a high degree of specialization. The regional market will stimulate such specialization in Latin America. The time required for the reduction of duties and restrictions will allow the gradual introduction of the necessary readjustments and may possibly encourage the merger of industrial interests between firms of different countries or the conclusion of mutual agreements to attain the necessary specialization in this and other cases.

All this should come about as the result of the free interplay of interests, which is not incompatible with effective guidance through financial agencies. But in no case should it lead to exclusive arrangements which prevent competition or the entry of new enterprises.

Basis VI. The payments system

In the abstract, a regional market without a special payments system is conceivable but, in practice, the full potential of the market will not be realized without it. A system in which any credit balance in favour of one country might give rise to an immediate outflow of foreign exchange to the rest of the world would mean a substantial weakening of the regional market. It is therefore necessary to create incentives to ensure that such balances are used within the market itself.

For this purpose, it will be necessary to examine the possibility of organizing a credit system at the same time as the multilateral payments system.

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The group noted with satisfaction that the meeting of representatives of some of the Central Banks in Montevideo, convened by ECLA, recommended parity for units of account in bilateral agreements and laid the foundations for the voluntary transfer of balances. It is to be hoped that the second meeting, to which all the Latin American Central Banks should be invited, will work out wider formulae for multilateral compensation and that an immediate programme for the elimination of certain restrictions which interfere with trade will open the way for the automatic transferability of intra-regional balances.

Basis VII. Temporary import restrictions

The incentive to use balances within the regional market itself referred to in the preceding section (Basis VI) will be a powerful stabilizing factor. But it is possible that certain transitory factors or inflationary pressure may produce disequilibria which, because of their nature and magnitude, cannot be remedied by additional credits. Such a situation may compel the debtor countries to impose restrictions on imports from the regional market. However, it is essential that such restrictions should conform to certain norms and that they should be applied for a limited time, since other measures must be adopted to attack the disequilibrium at its source. In this respect, the bodies to be established under the agreement could provide useful advice and guidance.

Consideration must also be given to cases in which the disequilibrium is of a structural character, or, in other words, when a country has not succeeded in attaining a rate of economic development similar to that of others without a persistent trend towards external disequilibrium. In this instance, firm action must be taken to stimulate exports and replace imports by domestic production. Monetary readjustment in accordance with the provisions and practices of the International Monetary Fund is one possible method. But some thought should be given to protective measures of limited scope which could be introduced only after the views of the bodies concerned had been heard. These are delicate matters which require careful consideration.

There is another type of disequilibrium which will have to be taken into account. The regional market will tend to accelerate the rate of

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growth of the Latin American countries. This fact and the more or less prolonged period of time which will have to be allowed for the reduction of duties and restrictions will facilitate the readjustment of the economic activities of a country when it is faced with competition from other member countries.

Cases may arise, however, where, because of the nature of an activity or its geographical position, it is not easy to transfer labour no longer required by that activity to others in process of development. In these cases, it is logical that a country should be able to impose temporary restrictions on imports which give rise to such difficulties.

Basis VIII. Safeguards for agriculture

From the point of view of the foregoing comments agriculture is in a special position. In certain cases, safeguards have been necessary to protect it against competition from other Latin American countries. This is a fact towards which no hard-and-fast attitude can be adopted. On the one hand the introduction of advanced techniques in agriculture in the countries concerned may enable them to face such competition on favourable terms. On the other hand it must not be forgotten that with the passage of time a marked increase in consumption may require that those activities now enjoying protection be maintained and stimulated, because the surplus of the exporting countries may gradually be reduced through the growth of their own consumption.

In the light of these possible changes it is necessary to proceed with caution and to accord special treatment to agricultural activities, without losing sight of the need to draw up programmes for the gradual replacement of certain costly lines of production by others in which productivity is higher, both for the benefit of the consumer and in order to promote the more efficient utilization of available productive resources.

Basis IX. Rules of competition

The essence of a regional market lies in its competitive character. But the success of such competition must be the result of better productive ability and not of arbitrary factors. These factors may be of different kinds. If the external depreciation of a country's currency is continually higher than internal depreciation, export prices might fall to the detriment of other countries competing on the market.

In other cases unfair competition might be rather the result of deliberate procedures, taking the form of apparent or concealed subsidies. These practices are not compatible with the regional market.

Basis X. Credit and technical assistance

In this field also it is necessary to proceed with caution for, while the accelerated development brought about by the regional market will give rise to greater need for investment resources, there is the risk of embarking on over-ambitious projects which, however well conceived, may prove difficult to carry out in practice. A beginning should be made with modest undertakings which could extend their field of action as they proved to be reliable and efficient.

The credit requirements inherent in the regional market are of two types: first, the financing of exports and, second, the financing of industries which produce these exports. So far as the former is concerned, a system of medium-term credits designed specifically to encourage exports of capital goods will have to be organized. Consideration should be given to the possibility of entrusting these credit operations to the same body which is responsible for the system of multilateral payments, without precluding the appropriate use of existing financial organizations, both domestic and foreign.

As regards the financing of industries, particularly those producing for exports, the enlargement of the market will undoubtedly provide private domestic and foreign capital with more powerful incentives than at present. These incentives will encourage the pooling of capital from different countries for the development of industries which serve the regional market, and other forms of financial co-operation. Yet national resources will

/clearly be

clearly be insufficient and recourse will have to be had to international credit resources. It will therefore be necessary to consider the possibility of establishing a special development agency to carry out these financing operations, which should be complemented by measures of technical assistance in regard to which international organizations could provide very valuable support.

The secretariat should study the possible repercussions on the regional market of the different kinds of treatment now accorded by the Latin American countries to investors.

Basis XI. The advisory body

The Group does not consider that the Latin American countries are yet ready to establish at the outset an executive authority for the regional market although this might constitute an objective for the future. Accordingly, it would prefer an organization of an advisory type but whose influence might in time become decisive if its efficiency and impartiality conferred upon it an unquestionable moral authority. This report has dealt with various circumstances in which a country has to take emergency measures which run counter to the aims of the agreement and which might cause harm to third countries. The advisory body would intervene in all such cases. What is more, its opinion should first be sought so that the country which considers itself prejudiced by measures taken by other countries may apply for a ruling. For this purpose, it would suffice to establish a procedure for appointing arbitrators in the specific cases which may arise.

Besides these functions, the advisory body should be responsible for following the development of the regional market, giving guidance to the organization previously referred to and fostering increasing co-ordination between the economic policies of the various countries, in order to ensure the efficient operation of the market itself.

Basis XII. Role of private enterprise

A perusal of the text in which the basis is described will suffice to show the desirability of requesting the secretariat that, in carrying out the studies and research entrusted to it in connexion with the regional market, it should explore the views of the private sector on this problem and seek the necessary ways and means of obtaining its active co-operation, both in the national and in the international field.

IV. OTHER RECOMMENDATIONS TO THE SECRETARIAT

The trade agreements in force between Latin American countries on the one hand and the rest of the world on the other are usually based on the unconditional application of the most-favoured-nation clause. With few exceptions, these agreements contain no provisions excluding from the application of this clause the special treatment which the Latin American countries would have to accord one another in order to establish the regional market.

Consequently, whatever the juridical procedure selected in due course for the establishment of the market - customs union, free-trade zone or any other -, before it can be put into effect, changes in a certain number of existing agreements will have to be negotiated with countries in other parts of the world.

To facilitate this process, it would be advisable henceforward for the Latin American countries, while continuing to honour their existing trade treaties, to endeavour to introduce, whenever they sign new agreements with countries in other regions or renew or modify instruments currently in force, a proviso couched in broad terms in favour of the regional market and of inter-Latin American trade in general.

The Group therefore recommends to the secretariat that it bring these opinions to the attention of Governments, laying stress on the advantages for the renegotiation of existing agreements with third countries, and for the incorporation therein of the proviso referred to, which would be afforded by the establishment of a regular system of consultation utilizing the Trade Committee mechanism. Such a system would permit the co-ordination of measures of trade policy, and, moreover, would make it easier to implement the suggestions put forward at a similar level in ECLA resolution 121 (VII), which recommends to the Latin American countries that they consider the desirability of carrying out consultations, especially on the possible repercussions of the European common market.

Similarly, it would be advisable for the secretariat to call the attention of Governments to the fact that certain situations arising out of the Rome Treaty seem to offer an opportunity of including reservations or provisos that may facilitate the establishment of the regional market.

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In this context, the secretariat might usefully carry out a study of the contractual aspects of the establishment of the regional market, first collecting data and opinions from the appropriate Latin American governmental organizations and from experts in this field.

In addition, an examination should be made of how far the concessions granted to member countries of the regional market might be prejudicial to the interests of non-member countries, especially in cases where certain special arrangements were in force between the latter and some of the members of the market.

Another of the Group's recommendations to the secretariat relates to maritime transport. The Group has taken note of the studies already carried out in this field and of the secretariat's instructions to pursue them. It would be highly desirable for them to be completed as soon as possible, as the shortcomings of the transport system constitute a serious obstacle to trade.

In this and other aspects of the work of compiling the information and background data needed for the preparation of the regional market project, the secretariat will have to maintain close and constant contact with the Latin American Governments. To this end the secretariat should, in the Group's opinion, recommend to the Governments that each country set up a body responsible for dealing with all matters relating to the study of regional market problems.

Similarly, it would be well for the secretariat to consider the most effective means whereby, through the expansion and diversification of trade, the present structural disequilibria in the latter could be remedied, in conformity with resolution 119 (VII).

Again, in view of the interest aroused by the proposed Latin American regional market and its potentialities, the Group feels that it would be useful if data on new industrial projects in the various countries were available at regular intervals. It consequently suggests that the secretariat consult the Governments as to their views on this idea and the possibilities of putting it into practice.

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/This seems

This seems to the Group to bring to a close the first phase of the important task entrusted to it by the United Nations. According to the instructions it has received from the Governments members of ECLA, its ultimate objective is to prepare a project for the structure of the regional market in Latin America. At this first session it has had to confine itself to establishing certain essential bases, which are, however, far from constituting even a preliminary project; this would be premature from every point of view. The bases in question are merely points of departure, so that the new studies which the secretariat is asked to undertake, in addition to those recommended to it by the Governments, may provide the data required for the drawing-up of specific and final proposals.

It would be impossible to conclude this report without express mention of the fact that all the members of the Group, who have taken part in these discussions in their own personal capacity, wish to place on record their satisfaction at the high quality of the technical studies prepared by the secretariat and its collaborators ever since the idea that ECLA should organize the preparatory work for the creation of a regional market was first broached. The Group recognizes the great progress made by the Central Banks Working Group, which established the bases for an orderly, safe and practical payments system, as well as the Trade Committee's invaluable more general contributions to the rapid attainment of the proposed objective. It therefore wishes to thank and congratulate both these bodies, as well as the permanent staff of the ECLA secretariat, under the guidance of its Executive Secretary, Mr. Raúl Prebisch, and the consultants who were invited to collaborate with the secretariat prior to and during the Group's preliminary work. The members of the Group also wish to express their gratitude to the Chilean Government and the various national authorities for their generous hospitality, which provided a propitious and pleasant setting for the work of the Group, and faithfully reflected Chile's traditions of courtesy.

/Annex I

Annex I

RESOLUTIONS ADOPTED PRIOR TO THE SESSION AND LIST OF
BACKGROUND DOCUMENTS

1. In the course of its work, the Group took into account the following points connected with the terms of reference assigned to it by the Trade Committee.

(a) Under the terms of resolution 101 (VI), adopted on 15 September 1955, the Economic Commission for Latin America, after considering the secretariat document entitled Study of Inter-Latin American Trade (E/CN.12/369), resolved to set up a Trade Committee, as a permanent organ of the Commission.

The purpose of the Committee is to intensify inter-Latin American trade without losing sight of "the fundamental necessity of increasing over-all world trade". In the resolution mentioned, the Commission recommended to the Committee that it should prepare specific proposals with a view to solving the practical problems of inter-Latin American trade as well as bases to facilitate intra-regional trade negotiations, in keeping with existing international commitments.

(b) At its first session (Santiago, November 1956) the Trade Committee adopted the following resolutions with a view to the gradual accomplishment of its tasks:

Resolution 1 (I) on the gradual introduction of a multilateral payments system. A permanent Working Group was formed by the Central Banks of some of the Latin American clearing-accounts countries in order to study the establishment of the system in question. For the intervening period of transition the resolution adopts certain principles - in particular that of parity for units of account and convertible currencies for the same operations - designed to co-ordinate existing bilateral payments mechanisms^{1/} and to pave the way for the multilateral transferability of balances.

^{1/} The Central Banks Working Group held its first session in Montevideo from 29 April to 10 May 1957. The result of its work was the drafting of a standard payments agreement and also an inter-Bank agreement - now in force - on the compilation and exchange of comparable data relating to inter-Latin American clearing accounts. The Group resolved to hold a second session during 1958.

Resolution 2 (I) relating to the problems arising from the parallelism and idle capacity existing in certain Latin American industries, and partly attributable to the small size of the individual countries' markets. The resolution recommended to the secretariat that, in order to determine what measures were advisable to remedy the situation, it should make an inventory of existing industries in Latin America, and that it should report to the Trade Committee on the progress of the studies concerned.

Resolution 3 (I) on procedures for the creation of a regional market. As the future industrial development of Latin America requires markets larger than those at present in existence, this resolution set up a Group of Experts to complete the studies carried out by the secretariat to date and also to undertake the following tasks:

- (a) To define the characteristics of the regional market, bearing in mind the differing degrees to which the countries of the region are industrialized;
- (b) To study its possibilities and projections; and
- (c) To submit recommendations on basic principles and procedures for its establishment, within the terms of reference of the Trade Committee as defined in resolution 101 (VI).

Resolution 4 (I) recommending to Governments the adoption of a policy for the gradual liberalization - either unilaterally or through bilateral or multilateral agreements - of intra-regional trade in natural products, raw material and foodstuffs.^{2/}

(c) At the Commission's seventh session (La Paz, Bolivia, 15-29 May 1957), member Governments recommended that the secretariat should "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

^{2/} See the text of resolutions 1 (I) to 4 (I) of the Trade Committee in Inter-Latin American trade: Current problems, op. cit. pages 14 to 17.

market" (resolution 116 (VII)).^{3/} At the same time the Group was requested 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, with due regard to each and every Latin American country and to its situation and possibilities.

(d) At the Economic Conference of the Organization of American States (Buenos Aires, Argentina, 15 August to 4 September 1957) the Governments of this hemisphere adopted a resolution ^{3/} in which after referring to the studies and projects already undertaken by the Economic Commission for Latin America, its Trade Committee and the Central Banks Working Group on behalf of the expansion of trade within the area, they unanimously proclaimed "the desirability of gradually and progressively establishing a Latin American regional market on multilateral and competitive bases".

(e) Furthermore, in resolution 3 (I) of the Trade Committee, to which reference has already been made, it was stated that the conclusions reached by the Group of Experts of the Regional Market, together with the comments made by the ECLA secretariat and those received from other international organizations, would be submitted directly to the member Governments for their consideration and comments. When this procedure had been complied with the secretariat should in due course disseminate as widely as possible the documents transmitted to the member Governments. In addition, the study prepared by the Group of Experts, or a progress report, together with the comments of the secretariat and the Governments, would be presented to the next session of the Trade Committee.

2. Besides taking into consideration the foregoing resolutions, the Group utilized as background documents in the course of its proceedings the studies prepared by the ECLA secretariat, and in some cases by its consultants, in connexion with inter-Latin American trade and the regional market, together with those of other organizations, as listed below:

^{3/} See complete text in Annex II of the present report.

A. Background documents

- (1) Study of Inter-Latin American Trade (E/CN.12/369/Rev.1), United Nations publication, Sales No.:1956.II.G.3.
- (2) Inter-Latin American trade: current problems (E/CN.12/423), United Nations publication, Sales No.:1957.II.G.5; with special reference to the account of proceedings of the first session of the Trade Committee (pages 7 to 14), and to part II, section 3, "Payments and the regional market in inter-Latin American trade" (pages 93 to 105).
- (3) Resolutions 116 (VII) of the Economic Commission for Latin America, given in Annual Report (15 May 1956-29 May 1957) (E/CN.12/451), pages 105 to 108 and 113 to 115.
- (4) ECLA activities relating to payments and the regional market in Latin America (E/CN.12/483).
- (5) Final Act of the Economic Conference of the Organization of American States (Buenos Aires, Republic of Argentina, 15 August-4 September 1957), with special reference to resolution XL, "Recommendation on a Latin American regional market" (pages 86-87).
- (6) Liberalización del comercio interlatinoamericano (document 3.1957 of the Organization of American States). *
- (7) Planteamiento de los problemas del mercado regional (E/CN.12/C.1/WG.2/1). *
- (8) Algunos problemas del mercado regional latinoamericano (E/CN.12/C.1/WG.2/2). *
- (9) Pierre Uri, Sugestiones sobre el mercado regional latinoamericano (E/CN.12/C.1/WG.2/3). *
- (10) Principales antecedentes del Grupo de Trabajo del mercado regional latinoamericano (E/CN.12/C.1/WG.2/4). *
- (11) Hollis B. Chenery, Alternative approaches to economic integration in Latin America (E/CN.12/C.1/WG.2/5).
- (12) El movimiento de integración económica centroamericana (Information document). *

* English text not yet available

/B. Documents

B. Documents distributed during the session

- 1) Exposición del Dr. Raúl Prebisch, Director Principal a cargo de la Secretaría Ejecutiva de la CEPAL en la sesión inaugural, el día 3 de febrero de 1958 (Conference Room Paper No. 1). ★
- 2) Sugestiones del Dr. José Garrido Torres en cuanto al método de trabajo del Grupo (Conference Room Paper No. 2). ★
- 3) Notas del Dr. José Garrido Torres sobre los conceptos generales y procedimientos a considerar a la luz de las cuestiones planteadas en los capítulos I a V del documento E/CN.12/C.1/WG.2/1 (Conference Room Paper No. 3). ★
- 4) Notas del Dr. José Garrido Torres sobre el problema del financiamiento del comercio interlatinoamericano y sobre la eventual necesidad de un organismo operativo para el sistema de pagos multilaterales (Conference Room Paper No. 4). ★
- 5) Compilación de informaciones sobre política comercial (Conference Room Paper No. 5). ★

★ English text not yet available

Annex II

RESOLUTIONS ON THE REGIONAL MARKET ADOPTED BY THE ECONOMIC
COMMISSION FOR LATIN AMERICA AND BY THE ECONOMIC CONFERENCE
OF THE ORGANIZATION OF AMERICAN STATES

A

The Economic Commission for Latin America,

Considering:

(a) That the Trade Committee, established under the terms of resolution 101 (VI) adopted at the sixth session of the Commission, 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

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 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).

B

The Economic Conference of the Organization of American States,
Bearing in mind:

The study presented by the Secretariat of the Organization of American States on Liberalización del Comercio Interlatinoamericano (Document 3);

The report presented to this Conference by the United Nations Economic Commission for Latin America, entitled ECLA activities relating to payments and a regional market in Latin America (E/CN.12/483); and resolution 117 adopted at the seventh session of the Economic Commission for Latin America;
Considering:

That the increasing economic development of the Latin American countries calls for a greater expansion of inter-Latin American trade which will enable the available human and material resources to be turned to better account;

That the future development of certain industries, especially the basic industries, requires, among other factors, high capital density and more complex production techniques, and, consequently, the stimulus provided by markets larger than that of any one country;

That it would be advisable to study measures and suggest possible approaches to economic integration which take into account all the countries of Latin America and which will be conducive to the creation of a broad Latin American market;

That in this connexion it is particularly important to bear in mind the processes of economic integration which are taking place in other regions of the world, and which, according to the methods adopted, may have perceptible effects on the trade and development of the Latin American economies, as stated in resolution 121 (VII) of the Economic Commission for Latin America;

That the Economic Commission for Latin America, through its appropriate organs, has made progress in its studies on payments systems and other subjects connected with the creation of the Latin American regional market;

That a group of Central Bank experts from Latin American countries between which bilateral accounts are in force is studying the establishment of a régime that will gradually lead to a multilateral payments system, which in turn constitutes a preliminary step towards the creation of conditions favourable to a regional market; and

/That co-ordination

That co-ordination and co-operation between the Inter-American Economic and Social Council and the Economic Commission for Latin America is advisable from every point of view, so as to prevent duplication of work and expenditure, as well as the dissipation of effort, and that such co-ordination has been shown by experience to constitute a satisfactory method of work,
Declares

That it is desirable gradually and progressively to establish a Latin American regional market on multilateral and competitive bases; and
Decides:

1. To recommend to the Inter-American Economic and Social Council that, to avoid duplication, after consultation between its secretariat and the secretariat of the Economic Commission for Latin America, and subject to the terms of the co-operation agreements in force between these two organizations, it take part in studies and other work preparatory to the creation of the Latin American regional market;
2. To request the Inter-American Economic and Social Council that it inform the Economic Commission for Latin America of the substance of this resolution, and of the points of view on the Latin American regional market expressed by the various representatives attending the present conference, so that they may be taken into account in the further pursuit of the studies undertaken on this topic;
3. To express its gratitude to the Economic Commission for Latin America for the valuable data supplied to this session in document E/CN.12/483.

(Resolution XL of the Economic Conference of the Organization of American States) *

* Unofficial translation