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LATIN-AMERICAN ECONOMIC INTEGRATION

Statement by the Leader of the Brazilian Delegation to
the Thirteenth Session, Mr. E.P. Barbosa da Silva, delivered at
the Plenary Meeting of the CONTRACTING PARTIES on 22 November 1958

At the last meeting of the Intersessional Committee, an item relating to "Latin-American Economic Integration" was included in the Agenda of the present Session of the CONTRACTING PARTIES, at the request of the representative of Uruguay and supported by the representatives of Chile, Brazil, Peru and the Dominican Republic.

2. The request that the above-mentioned item be included was aimed at keeping the CONTRACTING PARTIES informed of the development of the plans for economic integration in Latin America.
3. Those plans reflect a long-standing desire on the part of the countries of that region to speed up the rhythm of their economic development through the gradual and progressive integration of their economies.
4. Leaving aside historic examples of attempts at economic integration in the region and going back only as far as the studies carried out on this matter by the Economic Commission for Latin America (ECLA), it can be noted that since 1949 that Commission has declared itself in favour of the intensification of inter-Latin American trade by recommending the adoption of a number of measures, among them some leading to the establishment of a Common Regional Market.
5. In November 1956, a new impulse was given to the plans for the establishment of an inter-Latin American Regional Market by the setting up of a working group during the first meeting of the Trade Committee of ECLA. That working group was intended to examine the plans for such a Market and the repercussions its establishment would have on the economic development of the participating countries.
6. During the Seventh Conference of ECLA (La Paz, May 1957), the Latin-American countries reaffirmed their intention to establish a regional market as early as possible and, at the Economic Conference of the Organization of American States (OAS) (Buenos Aires, August 1957), the governments there represented agreed on a Resolution in favour of the gradual and progressive establishment of a multi-lateral and competitive Latin-American Regional Market.

7. In order to examine some aspects of trade relations between the Argentine Republic, Brazil, Chile and Uruguay, a group of high officials in charge of the commercial policy of those countries met, in a personal capacity, in Santiago-de-Chile last August, under the auspices of ECLA. Various comments were made at that time to the ECLA Secretariat concerning the measures which should be encouraged with a view to increasing trade between those countries. At the same time, it was pointed out to the Secretariat of ECLA that such measures, although they might bring a certain amount of relief to trade relations among the four countries concerned, would not ensure, to the desired degree, that possibilities for economic relations between them would be fully utilized. That aim should be met at the time of the future renewal of bilateral agreements, through more positive measures tending to facilitate the establishment of the Regional Market. The grouping of those countries in that area having more intensive reciprocal commercial interests, would lead the way towards the gradual expansion of the market over the whole of Latin America. In considering certain features of the trade system of countries most likely to start in this process of integration, it was pointed out in Santiago that as soon as all of them were applying adequate tariff instruments they would be in the position to overcome difficulties which stand in the way of a certain degree of stability and flexibility, either for intra-regional trade or for trade with the rest of the world.

8. In the light of those observations, the Secretariat of ECLA prepared a document entitled "Memorandum on the Establishment of Preferential Tariffs in Latin America", (Santiago, 10 September) which brought into focus the advantages which would accrue to the Latin-American countries and to international trade as a whole if trade relations within that area were to receive special incentives.

9. During an informal meeting of the Foreign Ministers of the twenty-one American republics, which took place in Washington last September, it was also recommended that mutual efforts for the establishment of regional markets in that continent be intensified. The communiqué of American Chancellors, issued on 24 September, stated as follows: "It is desirable that the Government and international organizations directly concerned, specially the Organization of American States, the Economic Commission for Latin America and the Organization of Central American States, speed up their studies and adopt concrete measures for the establishment of Regional Markets in Central America and in South America."

10. On 31 October 1958, as the result of an initiative of the Governments of Brazil, the Argentine Republic, Chile and Uruguay, a meeting was called of the Ambassadors of the Latin American Republics in Rio de Janeiro. The majority present approved a "Joint Declaration" stating, on the basis of the ECLA Memorandum, their common purpose to promote, by adequate means, trade expansion within the area so as to bring about a more intense economic co-operation between their countries with a view to the progressive formation of a Regional Market. Consequently, it was decided to initiate the collective or individual actions necessary to achieve those aims.

11. Such Declaration was since then left open, in Rio de Janeiro, for the signatures of the Latin American countries. Argentine, Brazil, Bolivia, Chile, Colombia, Ecuador, Haiti, Honduras, Mexico, Peru and Uruguay have signed it.

12. On broad lines, those are the main features of the problem we bring to the consideration of the CONTRACTING PARTIES, a problem which is becoming vital for a population of 150 million which, by 1975, should reach 275 million. Studies already carried out show that this demographic increase will lead to an additional thirty-eight million people in the economically active population and it may be estimated that, if the trends of the last twenty years are maintained, only five million of that huge manpower potential will be absorbed by primary or agricultural activities. That prospect makes it clear that the under-employment which already exists in the agriculture of the region will be aggravated and, consequently, the affected countries must have recourse to industrial development.

13. Industrialization, therefore, appears to be the dynamic alternative for the advancement of the standards of living of the Latin American populations. The industrialization process in helping to overcome under-employment in the regional economies, has a two-fold effect: on the one hand, it draws off the surplus manpower from agriculture determining thereby a rise of the per capita income in that activity; on the other hand, the remaining available manpower is employed, also with greater productivity.

14. The problem becomes more serious when it is noted that, in almost the whole of Latin America, exports grow at a lower rate than the population increases. Thus the economies of those countries would not be capable of coping with the normal increase of the population. It is anticipated that, in the near future, there will be a gradually decreasing total of goods available for an ever-increasing population.

15. Furthermore, the market on primary products on which the exports of most of the less developed countries are based, has never behaved in a way to allow a less pessimistic prospect with regard to the progressive deterioration in the levels of income of the Latin American countries.

16. To these considerations must still be added another factor of a psychological nature. In general, the consumer habits of the less developed countries tend to follow those of the more developed ones with which they are permanently in contact. This "demonstration effect" in our view is all the more marked in so far as the difference between the income levels of the countries permanently in contact with one another is greater. When a population begins to realize that their legitimate hopes for a better standard of living do not materialize, the ensuing feeling of frustration may bring about unpredictable social attitudes.

17. With respect to the emphasis given to industrialization in the less developed countries and those going through a process of economic development, we agree with the Panel of Experts that the "outdated" argument that "a country gains by developing the exports of the things which it is relatively best fitted to produce and by importing the things which it is least fitted to produce" contains a certain amount of truth. Nevertheless, this "outdated" argument does not tell us how we could promote the welfare of a growing population by exporting less and less in relative terms while under a mounting pressure for meeting a voracious domestic demand for imports.

18. We have the impression that the criticism generally made concerning the "exaggerated industrialization" of the less developed countries arises, perhaps, from too literal an interpretation of what is called the effort to substitute imports in the countries in the process of economic development. We admit frankly that the expression "to substitute imports" is not a happy one. In fact, when speaking of a substitution of imports, it is understood that there is a choice between home production or importation. However, the problem does not present itself in that way. The reduction in the capacity to import leaves no option: either certain specific goods are produced by the home market or they cannot be offered to the population at all for the simple reason that the country does not possess the resources to purchase them abroad.

19. The experience gained through the efforts made by some Latin American countries in order to achieve economic development shows that the most serious difficulties confronting them could be overcome if they could act together and in a co-ordinated manner.

20. Such obstacles as the relative scarcity of factors of production and the reduced market sizes which limit the opportunities for private initiative could be minimized or eliminated by common action, avoiding, among other anomalies, the use of inflationary measures or the multiplication of activities short of the minimum levels of productivity.

21. Recourse to inflationary devices, in general, aims at meeting the stimulus of a high propensity to consume, through an excessive rate of investment. In spite of the initial well-being created by such artificial inflationary measures, their secondary effects eliminate the earlier advantages and recovery from the distortions so caused can lead to a net loss for the economy as a whole.

22. The multiplication of activities despite market size short of the minimum required, becomes urgent because of a complete lack of resources to effect imports. The irrepressible demand renders investment imperative for the simple reason of survival. It is obvious that, under such conditions, new investment will require a much higher degree of protection than would be necessary if the minimum economic requirements had been met.

Such protection, which is of a preventive nature, is intended to avoid the paradox of having a fortuitous improvement in the exchange situation destroying an investment. The protection is then achieved either through the tariff system or through exchange controls, or both. It is easy to understand that, inasmuch as an investment generates another, over-protection starts a chain reaction of distortions. These, once they are consolidated, are hardly reversible due to their extra-economic implications.

23. We believe that it is essential for the countries of Latin America urgently to unite their efforts for economic development. The surveys made by ECLA clearly indicate that the effects of that joint effort, both on the trade of the area and on that between Latin America and the rest of the world, could only bring about further development in that area and a liberal expansion of world trade.

24. In view of such considerations, the Brazilian delegation wishes to inform the CONTRACTING PARTIES of the intention of its Government to initiate with the Governments of the Argentine Republic and of Chile negotiations for concluding instruments designed to foster conditions conducive to the gradual integration of their economies, hoping that they will be joined in their efforts by the other countries of Latin America as soon as they deem fit to do so.

25. As soon as such arrangements take concrete form, the Government of Brazil, in accordance with its obligations as a contracting party to GATT, will bring them to the consideration of the CONTRACTING PARTIES.