# The Montevideo Treaty and Latin American Economic Integration

## Provisions of the Montevideo Treaty

Signed by seven countries (Argentina, Brazil, Chile, Mexico, Paraguay, Peru and Uruguay) in February 1960 and subsequently ratified by all the respective Parliaments, the Montevideo Treaty establishing the Latin American Free Trade Association (LAFTA) is despite its relative brevity a rather far reaching legal instrument: It embodies not only provisions for gradual trade liberalization within the area, but also establishes a basic albeit sketchy structure of a regional economic integration programme.

The Treaty's 65 articles grouped under 12 chapters are followed by a number of explicative protocols and two resolutions (on credits and payments problems and on Bolivia's adherence to LAFTA). Applicable to substantially all the reciprocal trade among the signatories, it provides for gradual elimination — within no more than twelve years from the effective date of the Treaty (June 1, 1961) — of all " duties, charges and restrictions as may be applied to imports of goods originating in the territory of any Contracting Party " (1). For purposes of the Treaty, " duties and charges " mean customs duties and any other charges of equivalent effect — whether fiscal, monetary or exchange — that are levied on imports.

The trade liberalization will be achieved through negotiations aimed at establishing: (a) *national schedules* specifying annual concessions which each country is to grant to the others; and (b) a *common schedule* listing the products on which the Contracting Parties collectively agree to eliminate completely, within a period

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(1) No official English language text of the Montevideo Treaty exists; all the quotations follow an unofficial translation, published by the U.N. Economic Commission for Latin America (ECLA) in February 1960.

of not more than twelve years, duties, charges and other restrictions in connection with commerce within the Free Trade Area.

Each Contracting Party is committed to granting annually to other members of LAFTA reductions in duties and charges equivalent to 8% of the weighted average applicable to third countries. The *common schedule* shall constitute, in terms of the aggregate value of the trade among the member countries, 25% of such trade after the first three years; 50% after six years; 75% after nine years; and "substantially all of such trade" at the end of the twelve-year period. Concessions granted on products which appear only in the national schedules may be withdrawn by negotiation among the Contracting Parties in return for adequate compensation; however, the inclusion of the products in the common schedule is final and irrevocable.

The method of weighted averages in reducing tariffs, just as that applied by the Six in Europe, aims at endowing the Contracting Parties with a certain freedom of action in subsequent negotiations and thus assuring a gradual adaptation of the national productive structure to the trade liberalization programme. Thus, any country that wants to protect one of its domestic industries, for a certain transitory period, may grant relatively limited concessions to products of the competitive industries within the area, provided that more substantial concessions will be extended to other products in such way as to reach the required annual average.

The purpose of the negotiations, Article 10 of the Treaty declares, shall be "to expand and diversify trade and to promote the progressive complementarity of the economies of the countries of the Area". For that reason the percentages referred to in respect to the gradual expansion of the national and common schedules "shall be calculated on the basis of the average annual value of trade during the three years preceeding the year in which each negotiation is effected".

The concept of "reciprocity of concessions" was drastically revised during a series of negotiations prior to the signature of the Treaty and does not provide for the balancing of trade of each member country with the rest of the Free Trade Area. As expressed in Article 13, "the reciprocity... refers to the expected growth in the flow of trade between each Contracting Party and the others as a whole, in the products included in the liberalization programme and those which may subsequently be added". If as a result of the



concessions granted, significant and persistent disadvantages are created in respect to trade within the Area, the member countries will — says the Treaty somewhat vaguely — "consider steps to remedy these disadvantages with a view to the adoption of suitable, non-restrictive measures designed to promote trade at the highest possible levels".

To reduce the possibility of a recurrence of situations in which the trade liberalization would bring "significant and persistent disadvantages" to a member country "the Contracting Parties shall make every effort — in keeping with the liberalization objectives of the present Treaty — to reconcile their import and export regimes, as well as the treatment they accord to capital goods and services from outside the Area".

The Treaty establishes safeguards for two specific situations: (a) if imports of products from the Area under the liberalization programme "have, or are liable to have, serious repercussions on specific productive activities of vital importance to the national economy"; and (b) in case of a seriously unfavorable over-all balance-of-payments situation. In the first case, the Contracting Parties may authorize a given country to impose on a temporary basis "non-discriminatory restrictions upon imports included in the liberalization programme which originate in the Area". In the second situation, the Contracting Parties may likewise, and also on a temporary basis, authorize a member country to extend to intra-regional trade its measures aimed at correcting a balance-of-payments disequilibrium. Should any such measures remain in effect for more than one year, the LAFTA Conference will immediately initiate negotiations with a view to eliminating the restrictions adopted.

Safeguard clauses do not apply to the common schedule goods in this sense: although temporary import restrictions can be applied to them as well under the specific circumstances described earlier, these products are not subject to subsequent renegotiation by a country invoking a safeguard clause. In other words, no member country can restrict for more than a year its import trade of goods fully liberalized within the Area. On the other hand, concessions on products contained in the national schedules may be renegotiated on the basis of adequate compensation, if they result in imports seriously affecting specific national productive activities.

Following closely the ideas expressed earlier by the ECLA Working Group on the Latin American Common Market, the

Montevideo Treaty envisages exceptions in respect to agriculture and a special regime for the less developed member countries. (Paraguay is presently the only signatory falling into this category, but Bolivia and Ecuador (2) made it clear that they would consider entering LAFTA only as members of such a special group).

In respect to agriculture, the Treaty states that the member countries "shall seek to co-ordinate their agricultural development and agricultural commodity trade policies, with a view to securing the most efficient utilization of their natural resources, raising the standard of living of the rural population, and guaranteeing normal supplies to consumers, without disorganizing the regular productive activities of each Contracting Party". During the period provided for the establishment of the Free Trade Area, however, the member countries may limit their imports of agricultural commodities to the amount required to meet the deficit in internal production, giving priority "under normal competitive conditions" to products originating in the Area and attempting to expand such intra-regional commercial exchange.

In order to facilitate economic growth of the less developed member countries, the Treaty offers them: (a) unilateral concessions on the part of any of the other LAFTA members, to be granted "in order to encourage the introduction or expansion of specific productive activities"; (b) implementation of the trade liberalization programme "under more favourable conditions, specially agreed upon"; (c) special non-discriminatory measures aimed at the protection of domestic industries in the less developed countries, whether for balance-of-payments reasons or for the purpose of lending transitory encouragement to economic development; and (d) collective arrangements for financial and technical assistance to be extended by LAFTA countries as a whole or any group of them.

Chapter III of the Treaty, which contains certain provisions for "expansion of trade and economic complementarity" represents a conscious attempt to create the necessary conditions for a broader regional economic integration in future. It is here where a commitment is made for facilitating "the increasing integration and complementarity" of the economies of the Contracting Parties through their making "every effort... to reconcile their import and

(2) Ecuador decided to join the LAFTA late in May 1961.



export regimes, as well as the treatment they accord to capital, goods and services from outside the Area".

Furthermore, Article 16 envisages "progressively closer coordination of the corresponding industrialization policies" through agreements "among representatives of the economic sectors concerned". It also recommends negotiation of "mutual agreements on complementarity by industrial sectors". Participation in these agreements must be open to all the Contracting Parties, but subsequent concessions would not have to be extended automatically to non-participating member countries.

Finally, the Treaty of Montevideo establishes two organs of the Association — a Conference of the Contracting Parties and a Permanent Executive Committee. Consisting of representatives of the member countries, each of which is to have one vote, the Conference will meet at least once a year to adopt decisions on all major matters of substance. During the first two years the Treaty is in effect, Conference decisions are valid when affirmative votes are cast by at least two-thirds of the Contracting Parties and providing no negative vote is cast. The voting system for the subsequent period will be decided by the Conference itself. Thus, in effect, at least in the early stages of the Treaty's implementation, each LAFTA member has a veto power in all substantive questions (3).

The Executive Committee is the permanent organ of the Association responsible for supervising the implementation of the provisions of the present Treaty. It will consist of representatives of each member country and will have a Secretariat headed by an Executive Secretary and staffed by technical and administrative personnel. ECLA and the Inter-American Economic and Social Council of the OAS will act as technical advisers to the Association.

Even a casual student of the Treaty must notice a certain disproportion between the provisions of the central part dealing with the establishment of the Free Trade Area and the broader aims, as defined in the Preamble and in Chapter III on "expansion of trade and economic complementarity".

(3) A U.N. Economic Commission for Africa's paper *The Significance of Recent Common Market Developments in Latin America*, published in December 1960, recalls that the O.E.E.C. operated successfully for many years on the basis of unanimity principle and expresses an opinion that "given a basic will in all countries to make the Treaty work, there is no reason why the same principle would not prove satisfactory in the context of Latin America", p. 69.

What the Treaty establishes in its main operative section — if viewed in static terms — is a fairly modest mechanism calling for a very slow and gradual expansion of intra-regional trade with the emphasis on *existing* trade (limited at the present time to relatively few basic commodities such as foodstuffs and certain industrial raw materials). Even in this respect the scope of the Treaty is closely circumscribed by a special regime for agriculture, escape clauses and a possibility of renegotiating the composition of the national schedules in the light of the subsequent experience of the member countries.

On the other hand, the Free Trade Area is clearly meant to be a major vehicle for regional economic cooperation and integration. This is not only the intent of its sponsors and authors but the interpretation of the majority of Latin American economists as well. The Preamble to the Treaty unmistakably links trade expansion among the seven initial signatories and future adherents to LAFTA, with the basic objective of the whole region: acceleration of economic growth. It declares, *inter alia*, that the participating countries are:

> " Persuaded that the expansion of present national markets, through gradual elimination of barriers to intra-regional trade, is a prerequisite if the Latin American countries are to accelerate their economic development process in such a way as to ensure a higher level of living for their peoples,
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> " Aware that economic development should be attained through the maximum utilization of available production factors and the more effective coordination of the development programmes of the different production sectors in accordance with norms which take due account of the interests of each and all and which make proper compensation, by means of appropriate measures, for the special situation of countries which are at a relatively less advanced stage of economic development...
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> " Determined to persevere in their efforts to establish, gradually and progressively, a Latin American common market and, hence, to continue collaborating with the Latin American Governments as a whole in the work already initiated for this purpose, and
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> " Motivated by the desire to pool their efforts to achieve the progressive complementarity and integration of their national economies on the basis of effective reciprocity of benefits... ".

Furthermore, as mentioned above, the text of the Treaty itself contains very broadly-defined provisions for " increasing integration and complementarity " within the area, by reconciling import and



export regimes, and the treatment accorded to capital, goods and services from outside the zone, and by industrial complementarity agreements in particular industrial sectors.

Clearly, the Montevideo Treaty, in spirit if not in letter, aims at establishing something potentially larger than a free trade zone but, at the same time, much less ambitious than a common market. On the other hand, it leaves open — presumably for future negotiation — not only all the basic measures needed to implement regional integration objectives, but also certain important issues that are of critical importance to the adequate functioning of a free trade zone in a region characterized by a very uneven and still incipient overall economic development. The LAFTA agreement, for example, deals only parenthetically (in one of the annexed resolutions) with the key problem of an intra-regional payments system without which it will be difficult to expand the flow of even existing trade. The Treaty is also fairly nebulous with respect to practical measures which would assure the full advantage of participation for countries " at a relatively less advanced stage of economic development ".

#### Previous quest for regional solutions

For the purpose of clarifying this dichotomy of the Treaty it is necessary to review developments which led to its birth. Economic trends in the underdeveloped parts of the world economy in the post-Korean period, the growing realization of dangers involved in economic stagnation of Latin America and various futile attempts to forestall this stagnation, influenced the final shape of the LAFTA no less than did political developments in the outside world and the orthodox approach to the problem of growth on the part of international financial organizations.

Together with Asia and Africa the southern part of the Western Hemisphere has been facing serious difficulties since the beginning of the past decade. This occurred after 15 years of a relatively rapid economic expansion in the region, sparked by the outbreak of the Second World War and stimulated by the prolonged boom in international commodity markets which tapered off with the cessation of hostilities in Korea. During the period 1940-1955, major Latin American countries (Argentina, Brazil, Chile, Mexico, and, to some extent, Colombia) registered an impressive progress in diversifying and industrializing their economies notwithstanding the lack of well thought-out development policies. But the industrial growth in that period followed the pattern of that in nineteenth century Europe and the U.S., being concentrated mainly on consumer good industries, which involve relatively modest investment outlays and are easily adaptable to the limited size of individual national markets (4).

By the beginning of the fifties when all the major countries had completed this first stage of industrialization, they were ready to enter the next one — that of building up a broader industrial base including the manufacture of certain capital goods. Dependent upon increase in the level of investments and imports and the availability of sizable markets, such a development was hampered seriously, however, by the fact that the import capacity could expand no further. On the other hand, pressures for continued industrialization were growing not only because of the " demonstration effect " of the living standards in the fully developed Western economies, but also because of the population explosion which was a concomitant of the improved health conditions in the area (5). Although smaller Latin American republics, for very reasons, did not translate the decade and a half of extremely satisfactory export proceeds into any tangible internal economic growth (6) (and in that respect the distance between more and less advanced countries increased in Latin America in modern times), they also became deeply affected by the double impact of the population explosion and the " revolution of rising expectations ".

The position of the whole region was further aggravated, on the one hand, by the refusal of many of the governments concerned to stop improvising domestic economic policies and introduce certain basic structural reforms and a more rational allocation of resources; and, on the other, by the insistence of the United States and international organizations upon orthodox economic and financial policies,

(4) The size of effective domestic markets varies considerably within the region, covering about 80% of population in the southernmost republics; perhaps 30 to 40% in Brazil and Mexico; and much less in the least developed parts of Latin America: the Caribbean region, Central America, Venezuela, Peru, etc.

(5) The rate of demographic growth in Latin America (2.7%) is the highest in the world, and it is estimated that the region's population will double within the next quarter of century.

(6) For a detailed analysis of the primitive export economies, see JONATHAN V. LEVIN, *The Export Economies-Their Pattern of Development in Historical Perspective*, Harvard University Press, Cambridge Mass., 1960, pp. XVI + 347.



which under completely different circumstances were responsible in part for the West European postwar recovery. Under these rather depressing conditions the concept of Latin American economic cooperation was born.

The crystallization of the idea within the ECLA group was preceded by years of work by its economists on adapting the economic development theory to particular Latin American conditions, numerous studies on inter-regional trade, and persistent efforts towards integrating a group of five Central American republics (7). But until 1956 no one in the region, including the ECLA group itself, had any clear notion of the need for a Latin American regional economic integration, a common market, or a free trade zone, although ECLA — through its annual Economic Studies and related papers issued since the beginning of the past decade — had continuously been offering pessimistic views on the future of the region's economy in the light of external trends, and had been occasionally making well-documented calls for international economic cooperation, i.e. for increased U.S. aid to Latin America (8). At that time, concrete problems preoccupying Latin American experts were those of terms of trade, external aid and the traditional flow of goods within the region. Since the only commercial exchange worth mentioning — with the exception of the Venezuelan oil trade — was that among the four southernmost countries (Argentina, Brazil, Chile and Uruguay) the early efforts under ECLA auspices were directed to the solution of trade problems within the southern zone of Latin America (9) and not to truly regional arrangements.

A concept of regional cooperation based on trade preferences as a *means* towards the acceleration of Latin American economic growth appears for the first time in studies elaborated in 1956-57

(7) Theoretical contributions of the ECLA group to the understanding of the Latin American development process, which started with the setting up of this regional U.N. body in 1948, were dismissed for about a decade by economists and governments of the advanced countries as useless exercises of doubtful scholarly value. ECLA work on Latin American trade within the region and with the rest of the world started in 1952, and the Central American economic integration programme was initiated in 1951.

(8) See particularly, ECLA, *International Cooperation in Latin American Development Policy*, submitted to the Inter-American Meeting of Ministers of Finance and Economy, held in Petropolis, Brazil, in late 1954.

(9) As a matter of fact, one of these pioneer ECLA studies, published in 1954, under the title *Study of the Prospects of Inter-Latin American Trade*, carried a subtitle " Southern Zone of the Region ".

for the ECLA Trade Committee (10), a body created in 1956 and whose initial function was to analyze and help resolve problems related to commercial policy, payments, maritime transport and the like, primarily of the countries already participating actively in intra-regional trade. Even at the Inter-American Economic Conference, held at Buenos Aires in the fall of 1957, when for the first time the idea of regional economic cooperation was fully discussed, concepts were far from clarified, and the debate covered proposals on a common market, a free trade zone, sub-regional trade grouping, hemispheric integration, etc. However, aware of the continuous deterioration in the external and internal economic position of Latin America, the absence of any coherent and promising policy towards the region on the part of the industrial countries, and the signature of the Treaty of Rome in March, 1957, participants in the Buenos Aires gathering voted a resolution stressing "the convenience of establishing gradually and progressively, in a multilateral and competitive manner, a Latin American common market" and recommending that ECLA work out with the participation of the Organization of American States specific proposals on the structure and modalities of such a regional agreement.

Within a year of the first meeting of the ECLA Working Group on the Common Market (Santiago, February 1958) fundamental principles and basic recommendations of an arrangement covering the whole of the subcontinent were ready for presentation to the ECLA Conference at Panama City (May 1959). Certain features of these proposals found their way into the Montevideo Treaty signed nine months later.

### An ECLA-sponsored common market plan

General principles to be followed by a Latin American common market should have included the following, in the opinion of the ECLA Working Group:

1. Membership in the regional market must be open to all Latin American countries;

(10) For details, see Victor L. Urquidi, *Trayectoria del mercado común latinoamericano*, CEMLA, Mexico, 1960, pp. 61 and ff.



2. The ultimate aim of the regional market should be the inclusion of all goods produced within the area; but this does not mean, however, that the regional market must become effective immediately for all such goods.

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

4. It will be desirable eventually to establish a single customs tariff *vis-à-vis* the rest of the world.

5. The specialization in industries and other activities which is one of the objectives of the arrangements must be the outcome of the free interplay of economic forces.

6. 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.

7. Member countries must have the right to impose temporary import restrictions.

8. Participating countries must also have the right to restrict imports of agricultural commodities.

9. Rules of competition should be established to prevent the export trade of a member country from prejudicing the activities of other participants in the regional market.

10. The regional market must be provided with an effective system of credit and technical assistance.

11. An advisory body constituted by the member governments should be set up, as well as a system of arbitration.

12. During the formation of the regional it would be highly desirable to enlist the active cooperation of Latin American free enterprise.

These basic principles served as guides during the subsequent elaboration of concrete proposals (11) for presentation at the ECLA Trade Committee Conference in Panama City in May, 1959. They

(11) All the pertinent documents can be found in United Nations Department of Economic and Social Affairs, *The Latin American Common Market*, New York, 1959, pp. IV + 146 (Sales No. 59.II.G.4).

provided for the establishment of a free-trade zone, that was to be transformed progressively into a customs union. The Working Group recommended that the reduction of tariffs and other restrictions in intra-regional trade be implemented in two stages: During the first stage, to last 10 years, a substantial reduction (but not the complete elimination) of restrictions on trade among the participants would take place, with the scope of the reduction depending upon the commodity category. During the second stage, the reduction of tariffs and other trade restrictions within the area would be completed and the common market would be established, according to procedures agreed upon by negotiations to be undertaken before the end of the first stage.

The draft proposed furthermore a division of commodities entering intra-regional trade into three major groups: 1) primary products; 2) capital goods and other manufactures, the demand for which is growing rapidly; and 3) manufactured consumer goods. During the first stage, tariffs and other restrictions on trade in the first category of goods would be completely eliminated, with certain exceptions for agricultural commodities. Tariffs and other restrictions on the second category would be reduced as much as possible to stimulate intra-regional exchange of the products of the so-called dynamic industries. In regard to the last group, trade liberalization would be implemented slowly to provide for the internal adjustment in the field of existing industrial activities. Agricultural commodities would be subject to a special regime, in consideration of the relative backwardness of this sector and the need for domestic protection for some time of the primitive agricultural subsistence sector, which otherwise would become the first victim of the more efficient producers in certain countries in the area (12).

(12) Commenting on the complicated mechanism proposed by the ECLA Working Group with respect to the distinction to be made between different commodity groups, a U.N. Economic Commission for Africa study, *The Significance of Recent Common Market Developments in Latin America*, Addis Abeba, December 1960 (E/CN.14/64) wrote: "... the danger was foreseen that if the establishment of a common market were based too closely upon the models provided in Europe too much attention might be concentrated on competition between Latin American industries and too little upon the expansion of industry in the area as a whole. Any common market set up in an underdeveloped region such as Latin America should, it was felt, be concerned first and foremost with the encouragement of economic development, and only secondarily with promoting competition between existing industries. It was for the reasons that the ECLA Working Group considered that a slower process of transition to free trade should be envisaged for the products of such industries".



Taking into consideration the different degrees of development achieved by the Latin American republics and fearful that the complete dismantling of trade restrictions within the regional market would expose the least developed countries to dangerous competition from the more advanced members and foster the transfer of resources to the richer republics, the regime the ECLA Working Group proposed for relatively less developed countries provided for classification of all participants into three groups according to their respective margins of import substitution and export potential. Within this framework, the liberalization targets for the less developed countries would be implemented more slowly than in the case of the more advanced participants; and, furthermore, special concessions were to be extended to the poorer countries in the form of additional facilities with respect to their intrazonal exports of manufactures as well as primary commodities.

For the purpose of assuring reciprocal trade benefits to all participants, it was suggested that these benefits be measured by actual trade flows. Whenever a member country achieved an increase in its exports to the area without a corresponding increase in its purchases, and thus its benefits would be greater than its concessions, it would have to speed up its liberalization measures. A country finding itself in an opposite situation and facing balance-of-payments difficulties as a result of trade concessions granted to the regional group would have a right to slow down, temporarily, the implementation of its liberalization commitments.

The ECLA Working Group proposal also stressed the necessity to organize a payments and credit regime to facilitate the multilateral liquidation of transactions between member countries; foster specific sub-regional complementarity and specialization agreements by countries " linked by geographical proximity or common economic interests ", not to be automatically extended to the other members; coordinate trade policy with third countries; and define at an early date criteria to be followed for determination of the origin of goods.

After a thorough discussion of the report the Trade Committee asked the ECLA Secretariat to set up a group of governmental experts, appointed by the interested member countries, for the purpose of preparing a draft agreement for a Latin American common market. This was to be submitted at an early date to the various governments for approval and eventual adherence. The matter, however, took an unexpected course in view of the parallel preparations of a plan for a sub-regional free trade zone, by a group of the southernmost countries (Argentina, Brazil, Chile and Uruguay). The expert body proposed by the ECLA Trade Committee has never met, and the rest of the year 1959 was taken up by intense diplomatic negotiations all over Latin America aimed at reconciling longer-term objectives of the Working Group with concrete short-term measures envisaged by the four southern republics. The Montevideo Treaty was the final result of these activities. Although much more modest and simplier than the structure proposed by ECLA, the Treaty incorporated some ECLA provisions and followed closely the main objectives of a regional integration programme.

The doctrinal and theoretical justification of all these efforts is contained in a brief study prepared for the Panama City Conference by the ECLA Secretariat (13). It presents the case for Latin American integration through trade liberalization in the following way:

During the period 1945-1955, Latin America underwent a process of rapid economic development which despite an increasing rate of demographic growth enabled the region as a whole to maintain product growth *per capita* at 2.7% annually. The satisfactory economic expansion was possible largely because the purchasing power of exports increased at a similarly high rate. This important factor was helped by the import substitution process through industrialization, and a considerable inflow of foreign capital enabled the steady increase in the volume of investment required by the rapid rate of economic growth in the region.

Available data suggest that the favorable combination of external factors outlined above is unlikely to be repeated in the next 15 years. Conversely, it can be asserted that Latin America has entered upon a new stage of economic development in which "it will encounter international conditions resembling those it had to face after the world depression rather than those which prevailed in the post-war years" (14). As a consequence, independently of prospects for external financing in the form of economic aid and private capital inflow, the region must speed up the import substitution process considerably if it wants to develop at a rate similar to that registered in the first postwar decade.

(13) *Influence of the Common Market on Latin American Economic Development*, a paper included in *The Latin American Common Market*, pp. 51-89.

(14) *Op. cit.*, p. 53.



It is difficult to believe — continued the ECLA experts — that this substitution process could be achieved with the fragmentation of the Latin American economy into 20 individual national markets. Larger countries need to substitute many capital goods exports, but their production involving high investment and economies of scale is not feasible without access to broader markets. Smaller republics in many cases cannot even enter the first stage of industrialization without unduly high protection. Thus, the integration of individual markets is a prerequisite to the maintenance of the post-war rate of growth of the region's economy with two other conditions of paramount importance being the liberalization of terms under which international financing is granted to the less developed areas, and the diversification of Latin American trade with the rest of the world.

The present intra-regional trade was found to be of marginal importance to almost all the republics, but its potentialities very great. According to the ECLA projections based on realistic assumptions regarding extra-regional exports during the next 15 years as well as the behaviour of the import coefficient, external resources available to Latin America by 1975 from its exports to the outside

TABLE I

LATIN AMERICA: PROJECTION OF SOURCES OF SUPPLY OF SELECTED PRODUCTS, 1975

| Commodity | Unit | Total demand | Source of supply | | Intra-regional supplies as percentage of total |
|---|---|---|---|---|---|
| | | | intra-regional | extra-regional | |
| Machinery and equipment . . | Million dollars | 9.122 | 5.435 | 3.687 | 60 |
| Passenger cars . . . . . . . | Unit | 1.790 | 1.308 | 482 | 73 |
| Steel and semi-manufactured steel products . . . . . | Thousand tons | 37.600 | 32.300 | 5.300 | 86 |
| Copper and semi-manufactured copper products . . . | Thousand tons | 540 | 443 | 97 | 82 |
| Petroleum and derivatives . . | Million dollars | 201 | 193 | 8 | 96 |
| Chemicals and chemical products . . . . . . . . | Million dollars | 8.155 | 7.265 | 890 | 89 |
| Paper and paperboard . . . | Million dollars | 1.545 | 1.331 | 214 | 86 |
| Cotton yarn and textiles . . | Thousand tons | 1.655 | 1.655 | — | 100 |
| Staple agricultural commodities | Million dollars | 13.500 | 13.280 | 220 | 98 |

*Source*: ECLA, *Influence of the Common Market on Latin American Economic Development*.—

world would be able to cover only slightly more than one half of the total import needs. Consequently, there was room for a tenfold increase in the volume of inter-Latin American trade — at 1955 prices — from some 750 million dollars a year in recent years to about $8.300 million in 1975. This would mean that Latin America itself would supply almost a half of its own import requirements in that year. In some industrial commodity groups the percentage would be even higher (see Table 1).

Fulfillment of these quantitative objectives would depend to a great extent on trade liberalization within the area. This, in turn, was considered urgent because pilot studies on the relationship between prospects for inter-Latin American trade and economic development strongly suggested that if a common market were established, development would be more rapid than if the market were not organized, " not only in Latin America as a whole, but in each of the individual countries of the region " (15). The programme to be implemented would have to take into consideration, of course, the different degrees of productivity characterizing countries at various stages of development and accept certain reasonable disparities in the individual rates of growth.

## The project for Southern Latin America

Representing more than half of the inter-regional commercial exchange in the postwar period, trade between the four southern republics (Argentina, Brazil, Chile, and Uruguay) has a long tradition. Although recently certain manufactures have figured in it in limited volume, in the fifties it still tended to be concentrated on basic commodities such as wheat, meat, sugar, fats, and fruits. Argentina and Brazil appeared in this market as suppliers, whereas the other two — Chile and Uruguay — had recourse to the two larger neighbours in order to obtain the foodstuffs that their own domestic production supplied either in insufficient quantities or not at all. Because of the policies of the respective governments aimed at attaining self-sufficiency in agricultural products, the prospects for steady expansion of this type of exchange have never been too bright, but nevertheless zonal trade played an important role as a

(15) *Op. cit.*, p. 53.



source of supply to compensate for domestic deficits. For the same reason, it fluctuated widely from year to year.

For a long time the trade among the four neighbouring countries had been governed by a series of bilateral compensation agreements involving the selective use of exchange and trade controls. Difficulties encountered in bilateral settlements which led to the decline of trade in the mid-fifties together with the gradual simplification of cumbersome systems of controls on trade and payments made it advisable to seek a revision of existing arrangements, especially since all four republics were anxious to continue their trade contacts in view of the serious balance-payments deficits with the outside world. After having achieved some uniformity in the bilateral payments arrangements through ECLA's technical assistance, they sought a more permanent solution. The formula chosen was that of a free trade zone. Since Brazil, Chile, and Uruguay joined GATT in the early post-war period, it was thought necessary to follow GATT rules in that respect. The decision to set up a limited regional trade arrangement was taken at an ECLA-sponsored expert meeting, in August, 1958; and in the Spring of the following year, a few weeks before the ECLA Conference in Panama City, which was to consider its Working Group's recommendations concerning a Latin American common market, the four republics finished drawing up a detailed draft of their treaty.

This document, submitted for information at the Panama Conference, stressed the urgency to expand trade among the sponsoring republics, and expressed the hope that the proposed arrangement would represent a contribution to the subsequent broader regional trade integration. It indicated the willingness of the authors to negotiate a regional common market agreement as soon as details were worked out and, in the meantime, invited other countries to join the proposed free trade zone to be established within a ten-year period. The draft envisaged trade liberalization by means of annual 8% tariff reductions for the inter-zonal exchange of goods, so that after the first three years, 25% of this trade would be totally freed, 50% after six years, 75% after nine, and not less than 80% at the end of the period. It provided also for standardization of export and import regimes with respect to third countries and the application of the most-favoured-nation clause to all members of the zone. Escape clauses permitted member countries to impose quantitative restrictions on products whose domestic production was of major importance for the national economy or subject to special governmental support measures. Although no specific and additional concessions were offered to the less developed countries, the draft foresaw the possibility of temporary arrangements to aid them in fostering certain productive activities. Payments within the zone were to be subject to the multilateral settlements system elaborated at the end of 1958 by a meeting of Latin American central banks' experts.

The simultaneous appearance of two concrete but competitive proposals forced upon ECLA and the Latin American governments the necessity to define speedily their respective positions and the course to be followed. The debates at the Panama City ECLA meeting made it clear that the southern project had one basic advantage, which represented also a direct threat to the ECLA-sponsored plans. The southern free trade zone would have been established *before* the common market. Would the latter be able to absorb a more limited subregional arrangement in time? Should the remaining republics establish a similar subregional arrangement in the northern part of Latin America and try to merge it with the southern group later on? Would not a temporary division of the region into two separate groupings create conditions conducive to a permanent split, similar to that taking place in Western Europe, but much more dangerous? Was there any way to reconcile two projects? These were the questions facing the ECLA Secretariat and leading Latin American economists and policy makers during the summer of 1959.

The fact that the southern project left adherence to the free trade zone open to other Latin American republics seemed to offer the way out. In the next stage, the four-country project was extended somewhat by inviting Bolivia, Paraguay and Peru, neighbours of the original group, to take part in the negotiations. Even then, however, the composition of the expanded group strongly suggested a subregional arrangement. Willing to prove that this was not the case, the southernmost republics asked Mexico and Venezuela to send observers to a formal diplomatic conference convoked in September, 1959 at Montevideo for the purpose of preparing a final draft of a free trade zone treaty. Both countries accepted willingly, and Mexico's President, Adolfo López Mateos, declared during his South American tour in the closing weeks of 1959 that his country would accede to participation in the free trade zone together with its original sponsors. By that time, the Treaty draft had been expanded by inclusion of various important features of the plan which originated with ECLA Working Group on the Common Market. It embodied detailed provisions on the treatment to be granted to the less advanced countries, its reciprocity and escape clauses had been clarified and redefined, and the chapter on expansion of trade and economic complementarity were considerably strengthened. The final draft of the Treaty, however, followed with very few changes the main operative parts of the southern project governing the mechanism of the free trade zone, the timing of trade liberalization and similar decisive points. Because of the vehement opposition of the International Monetary Fund, the solution of the payments problem was left in abeyance.



The negotiators agreed that adherence to the Treaty would be open to all republics in the region, and that on the expiration of the twelve-year term, the member countries would " initiate the necessary collective negotiations with a view to fulfilling more effectively the purposes of the Treaty and, if desirable, to adapting it to a new stage of economic integration ". Thus, the final formula accepted by all seven sponsors has all the characteristics of a compromise. Some say that its most important virtue consists of avoiding a political and economic split in Latin America on the occasion of the first serious attempt to create conditions for long-term regional economic cooperation.

## GATT and the International Monetary Fund: opposite attitudes

The attitudes of the General Agreement on Tariffs and Trade towards Latin American integration efforts and that of the International Monetary Fund were and are diametrically opposed: the first on many occasions demonstrated an understanding of the objectives of the programme and a willingness to cooperate, whereas the second took a position of doctrinal and vehement insistence on the " sacred rules " of international trade and finance (16).

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(16) " The conditions imposed on the underdeveloped countries by the I.M.F., seen through the eyes of the outside observer, have run too much in the tradition of the banker and too little in the tradition of the entrepreneur. They have too easily subordinated the objectives of growth to those of stability. There are times, of course, when stability of some sort is a prerequisite to growth. But there are times, too, when growth is the instrument

Four out of the seven of the original participants in LAFTA had long been GATT members, and Argentine was considering such step since 1958. This explains why care was taken during the negotiations of the Montevideo Treaty to approximate it as far as possible to GATT rules concerning regional trade arrangements. It was officially known that for one principal reason the GATT Secretariat had not been ready to give favorable consideration to projects which emanated in 1958-59 from the ECLA Working Group: these proposals were envisaging a two-stage approach to the trade liberalization programme and provided a detailed definition of the mechanism for the implementation of the first ten-year stage only. GATT argued that this might result in the establishment of a preferential system without any assurance that it would eventually become a free trade zone. GATT's objections to the early versions of the project drafted by the four southern countries were less fundamental in nature, and subsequent contacts and discussions between the Latin American members of the organization and the GATT Secretariat were most amicable since GATT was doing its utmost to make allowances for the regions's special difficulties in the field of trade and economic growth.

GATT was kept informed at all times regarding the progress of regional negotiations, and an early draft of the Treaty providing for a free trade zone was submitted for information by Brazil, Chile, Peru and Uruguay at the Fifteen Session of the Contracting Parties of GATT, held in Tokyo in the fall of 1959. In 1960, in response to the official presentation of the Montevideo Treaty to GATT, the latter's Secretariat prepared a long questionnaire to be filled in by LAFTA members. Upon its return, a GATT working group was set up for the purpose of analysing the relative compatibility between the two legal instruments. Following precedents established in the case of the Treaty of Rome and the Stockholm Convention, the Working Group recommended that note be taken of the Latin American arrangement and of the willingness of its participants to follow GATT rules governing free trade zones and customs unions; however, final judgement as to whether the Treaty was fully compatible with Article XXIV of GATT was to be held

through which balance is eventually achieved" — wrote a Harvard scholar, Prof. RAYMOND VERNON, not long ago — in "A Trade Policy for the 1960's", *Foreign Affairs* (New York), January 1961.



in abeyance subject to further study. This ruling — GATT declared — "should not prevent the signatories of the Montevideo Treaty from proceeding with the implementation of the Treaty after its ratification".

That this ruling should not be construed as reflecting a hostile or indifferent attitude towards LAFTA was confirmed in very clear terms by the Assistant Secretary of GATT, Jean Royer, at the ECLA Conference held in Santiago in May, 1961 (17). Royer declared that:

"We are gratified at the entry into effect of the Montevideo Treaty which responds to the twofold endeavor to found Latin America's economic development on a broader base without affecting its trade with the industrial countries. Thanks to close cooperation between the ECLA and GATT Secretariats, it has been possible to eliminate the numerous obstacles that had arisen, remedy situations that at times were too strict, and facilitate recognition by the Contracting Parties in the General Agreement, of the Treaty signatories' right to execute the Latin American integration project while simultaneously maintaining the benefits of the most-favored-nation clause for their exports. The Contracting Parties are particularly grateful to the Montevideo Treaty signatories for their efforts to adapt their association to GATT rules with regard to the establishment of free trade zones. GATT is not motivated by a doctrinnaire spirit when stating its conviction that the association has taken on the form of a free trade zone and not that of a preferential agreement...".

Efforts to stimulate inter-regional trade trough multilateral handling of payments predate the crystallization of the idea of Latin American economic integration. In late 1956, the ECLA Trade Committee recommended that monetary authorities in the region seek a way to establish gradually a multilateral payments system which would take the place of existing bilateral agreements and facilitate commercial transactions between non-convertible currency republics of the South and the northern republics belonging to the dollar zone. A standard bilateral agreement, worked out by a group of eight South American central banks in mid-1957 under ECLA auspices, and adopted by Argentine, Bolivia, Chile and Uruguay, subsequently brought some measure of uniformity into

(17) Translated from the Spanish text distributed by ECLA Secretariat at the Third Conference of the ECLA Trade Committee on May 8, 1961. *Documento informativo n. 3*.

the payments situation in the region, but was considered by all the parties concerned only as a preliminary and interim solution.

At the end of 1958 another central bank conference was held in Rio de Janeiro to study ECLA proposals for a multilateral settlements system, and, eventually, for the establishment of a Latin American payments union. The success of any action in the field of regional economic cooperation, declared the ECLA paper submitted to that meeting (18) " will depend largely on effective collaboration in two interdependent and, for the purpose at issue, indivisible fields: payments and trade policy ". In view of the absence of convertibility in most of Latin America, plus the general shortage of hard currencies and wide fluctuations in intra-regional transactions, ECLA supported the early creation of a mechanism for the multilateral compensation of bilateral balances in the area, to be ultimately replaced by a payments union. The first-stage agreement would provide for the compensation of outstanding balances originating from bilateral trade transactions, under a system similar to that which was put into effect in Western Europe between 1947 and 1950 to prepare the way for the European Payments Union. The Latin American payments union proper was to have been established after the interim arrangement had been in operation for a few years and provided that trade between members under the stimulus of increasing liberalization had become substantially free from restrictions and discrimination.

ECLA insisted that it was not premature to conduct a preliminary examination of the feasibility of completely multilateral regional operations in view of emerging plans for the formation of a regional market: " If... the regional market is to be open to all Latin American countries, one *sine-qua-non* of its operation will be the existence of a multilateral payments regime under which the participants would incur no exchange risks. Hence, while still allowing prudent advances to be made towards the establishment of a common market, an analysis of the essential aspects of the multilateral payments regime proper will help to clarify certain problems which must gradually be solved before the regional market is established " (19).

(18) ECLA Trade Committee, *Payments in Inter-Latin American Trade*, paper submitted to the Second Session of the Central Banks Working Group, Rio de Janeiro, November 24-December 4, 1958, p. 3.

(19) *Ibid.*, p. 11.



Concrete proposals for setting up a regional system for multilateral settlements of bilateral trade balances (along the lines of that still operating today — under the management of the U.N. Economic Commission for Europe and covering bilateral transactions between Western and Eastern European countries) were submitted in the name of a group of the republics to the ECLA Trade Committee Conference at Panama City, with the understanding that such an arrangement would be followed by the creation of a payments union in some more distant future. The plan was rejected *in toto* by the IMF representatives who considered it completely superfluous and unacceptable in view of the recent progress in the area towards convertibility and liberalization of trade and payments. The five main objections raised by IMF were as follows:

1. Latin American bilateral trade is much smaller than that which took place in Europe immediately after the end of the war;

2. The danger that the suspension of bilateral trade would lead to the large scale unemployment present in post-war Europe does not exist in the case of Latin America;

3. Multilateral settlements are even less necessary in view of the recent return to convertibility in Argentina, Bolivia, Chile, Columbia, Paraguay and Peru;

4. Bilateral payments agreements in force in the region could be easily substituted by direct arrangements between central banks and other financial agencies;

5. Establishment of a payments union would easily result in the perpetuation of bilateralism " even though that might not be the intention of its authors ".

IMF's negative attitude to any solution of payments problems in the region other than settlement in freely convertible currencies became even more vehement at the next meeting of the central banks in February, 1960 when a final attempt was made by the sponsoring countries and ECLA to incorporate measures providing for the solution of regional payments problems into the free trade zone treaty. All but one (20) of the participants in that Conference, which was held in Montevideo, were willing to support the revised

(20) Peru, a country with persistent trade surpluses with the rest of Latin America.

and expanded ECLA proposals (21) but IMF stood fast in defense of its position that the proposed Latin American free trade area must be accompanied not by an area-wide compensation system with automatic or semi-automatic area credits, but by a system of settlements in freely convertible currencies. IMF was perfectly aware of its strength in dealing with the sponsors of the integration programme, as the majority were in the midst of stabilization programmes sponsored and financed by the Fund. Under these circumstances any "rebellion" against IMF conditions was clearly impossible. The issue was shelved by agreeing on the formula that the problems involved required further study. No studies were initiated afterwards, however, notwithstanding the fact that in the meantime the Montevideo Treaty had been signed and ratified and became effective as of June 1, 1961. There was actually no need for them since IMF's position continued without the slightest change as witnessed by the following brief reference to LAFTA made by the IMF representative at the ECLA Conference last May in Santiago:

"With respect to the payments difficulties which the regional market may create, I am convinced that as long as the countries persevere in their stabilization efforts and in the defense of the convertibility and stability of their currencies, the Fund will give sympathetic consideration to the possibilities of financial aid aimed at eliminating these difficulties" (22).

It is fairly easy to refute the IMF line of reasoning at the Panama meeting:

1. A comparison of the magnitude of bilateral trade in Europe in the late forties with current inter-Latin American trade makes little sense, if one assumes that the purpose of a regional free trade zone is to stimulate such trade to the utmost.

(21) In their search for compromise ECLA experts proposed as an alternative an arrangement, defined as an *a posteriori* system of credits, providing for settlement of current operations in dollars and the deposit in the payments agency at certain intervals of a part of the trade surpluses of creditor nations. These funds, in turn, would be placed at the disposal of the debtor countries in the form of loans.

(22) Translation from the Spanish text of a speech made at the Third Session of the ECLA Trade Committee in Santiago on May 9, 1961, by the IMF representative, Jorge del Canto (*Documento Informativo n. 14*, p. 3).



2. The mention of the absence of the danger of unemployment in the event of the suspension of bilateral trade in the area must have been based on the curious belief that Latin American economies function on the basis of full use of their resources.

3. It is assumed erroneously that convertibility achieved in the past few years in certain Latin American countries is the same in substance as convertibility of the dollar or the Deutsche mark.

4. The direct arrangements proposed are based on the availability of high exchange reserves in individual countries and only slight fluctuations in intra-regional trade — both of which assumptions are readily contradicted by IMF statistics themselves.

5. If the establishment of a payments union leads to the perpetuation of bilateralism, then the E.P.U. was an unfortunate and retrogressive incident in Europe's progress towards freedom of trade and convertibility.

These and other counterarguments were used by Latin American experts and outside observers as well (23). The recent paper of the U.N. Economic Commission for Africa points out that the need for incorporation of a multilateral payments system into the free trade zone project in Latin America stems from one extremely important fact, which the IMF has never been able to deny: the persistent shortage of hard currencies in the entire region. The over-all liquidity position of Latin America continued to weaken throughout the fifties measured in terms of both the relative participation of the twenty republics in world gold and foreign exchange reserves and the relationship between reserves and imports (24).

The very recent improvement in that respect for which IMF takes full credit, is of a purely statistical nature, since it fails to take into account the tremendous increase in the external debt of the major Latin American countries, a phenomenon which in the log run completely nullifies the moderate improvement in the reserve

(23) See Sidney S. Dell, *Problemas de un mercado común en América Latina*, CEMLA, Mexico, 1959, especially Chapter VI, "Sistema de Pagos - Problemas Generales", pp. 133-152; and U.N. Economic Commission for Africa, *The Significance of Recent Common Market Developments in Latin America*, Addis Abeba, December 1960, pp. 75-82.

(24) For details, see *Aspectos Monetarios de las Economías Latino americanas*, 1959, CEMLA, Mexico, 1960, pp. 86-98.

position of certain of the republics. The "dollar glut" which took the place of the "dollar shortage" in the industrial part of the world economy in the past four years did not unfortunately become any major headache for Latin Americans. Quite the contrary, the region is worse off today with respect to the availability of hard currencies than it has been at any other time in the postwar period. Were this not the case, there would be no point in the U.S. Government's organizing and expanding emergency aid programmes to Latin America or, indeed, in the proud assertion of the Fund itself to the effect that its financial assistance to the region is growing. If Latin America were not continuously facing balance-of-payments crises of varying intensity, there would be no reason for individual republics to condition their return to covertibility to acceptance by the Fund of measures in the field of exchange and trade restrictions (25) — which in many cases render the convertibility announcements quite meaningless.

The ECA study quoted above leaves no doubt with respect to the impact of IMF attitudes on the future of the Latin America integration programme (26):

"If the Latin American countries all had very large reserves of gold and foreign exchange, they could, perhaps, afford to face the prospect of temporary balance-of-payments deficits arising from liberalization of imports without undue concern. For their gold and foreign exchange would provide them with the margin of time needed for corrective measures dealing with the basic causes of such deficits to take effect... It therefore appears that for many countries in Latin America, the reduction of trade restrictions may be incompatible with full payments in convertible currencies. If they are to pay wholly in dollars for their imports from other countries in the area, they may find themselves compelled to maintain restrictions on trade with one another not less severe that the restrictions which they employ in trade with the rest of the world. In other words, given the existing foreign exchange position in Latin America, the conduct of intra-regional payments on the basis of complete settlement in gold and dollars would defeat the whole purpose of a common market by making the liberalization of trade impossible, or at least very difficult".

(25) Every conceivable rationalization is applied to these measures, so that the IMF Articles of Agreement appear to be fulfilled to the letter.

(26) ECA, *The Significance of Recent Common Market Developments in Latin America*, p. 76.



## The United States and Latin American integration efforts

In contrast to the wholehearted support extended since the inception of the Marshall Plan to the concept of European economic cooperation and the active assistance given later to the European Economic Community, the U.S. attitude towards Latin American integration efforts during the years preceding the advent of the Kennedy Administration was ambivalent, to say the least.

"To date — one of the Democratic leaders in the U.S. Senate, Mike Mansfield, wrote a few weeks before the signature of the Montevideo Treaty — 'the Administration has taken the view that a common market in this hemisphere is a Latin American affair. While the idea has not been discouraged, little has been done to encourage it... The present concern of Latin America with the common market concept affords the U.S. one more opportunity to end the downward spiral in inter-American relations. What is needed is a policy initiative which is at once dynamic, understanding and creative. Unless we act promptly in displaying that initiative we shall leave the impression, as we have done so often in the last few years, that we are little concerned with Latin America's interests unless we are prodded and shocked. Should that impression once again take hold in connection with the American common market concept, any subsequent positive action on our part will be stripped of much of its value'" (27).

It is true that at various inter-American meetings held between 1958 and 1960, the United States joined the Latin American countries in passing a number of resolutions expressing support in general terms of the idea of regional trade cooperation. But these resolutions and declarations always spoke of the advisability of establishing regional *common markets* and not the Latin American common market as proposed by ECLA. An excerpt from the final official *communiqué* from the Inter-American Conference of Foreign Ministers, held in Washington in September, 1958, gives an example of a formula acceptable to the U.S. It declares that:

"It would be well for the governments directly concerned and the international organizations directly interested, chiefly the Organization of

(27) Sen. Mike Mansfield, "Common Market for Latin America", *The New Leader* (New York), January 25, 1960, p. 9.

American States, the Economic Commission for Latin America and their Organization of Central American States, to expedite their studies and concrete measures directed towards the establishment of *regional markets in Central and South America*" (28).

Although Harold M. Randall, the U.S. delegate to the ECLA Conference in Panama in 1959, declared that "we are not trying to decide whether the Latin American countries prefer one or more common markets", and "any alternative can be beneficial so long as the market or markets are established on a competitive basis", the impression prevailed for long time all over Latin America that since it was doing nothing to encourage Latin American integration on a truly regional scale and as a rule used the term *common markets*, the U.S. was not interested until very recently in anything exceeding loosely linked subregional trade groupings in the area.

Official U.S. documents and the writings of leading U.S. experts in hemispheric affairs abound in circumstancial evidence that until the middle of 1960 the United States looked upon integration efforts with a mixture of ideological disapproval and deep distrust. This attitude had some roots in the basic clash of interests ably described in a paper prepared for the U.S. Senate Committee on Foreign Relations by a private research institution, the National Planning Association, and released in Washington in the summer of last year. The study refers in the following terms to the general framework of U.S.-Latin American economic relations in the postwar period:

"The intensity of their [Latin America's] desire for development, diversification, and higher standards of living, in the face of changing market conditions abroad and instability in terms of trade, has created issues involving fundamental principles of trade and finance which do not have the same historical significance and the same practical implications for underdeveloped countries that they have for industrialized countries...

(28) Quoted from the full text published in *The New York Times*, September 25, 1958, italics added. The approach consisting of putting the Central American Common Market and LAFTA on the same level and discussing their respective advantages and disadvantages in comparative terms persists in the U.S. to this day. It gives origin to a feeling of frustration among the LAFTA supporters who make a clear distinction between the regional character of the Free Trade Area and the subregional objectives of the Central American scheme. It is generally assumed in Latin America that with the progress of LAFTA, Central American republics will join it one day as a group.



"The basic issues between the United States and the countries of Latin America which began to project themselves during the early period of postwar readjustment to peacetime hopes and plans centered in the field of economic and financial policy. These precluded agreements on economic principles at Bogota in 1948 and again at Buenos Aires in 1957 and consistently erected obstacles toward finding solutions to the economic problems of the hemisphere" (29).

The lack of interest is also closely related to U.S. attitudes toward ECLA (30) which for many years was considered by many in the United States as an intruder into hemispheric affairs, a defender of dangerous statist tendencies and a competitor of the Organization of American States. During the conservative Republican Administration in Washington, proposals coming from, or sponsored by, ECLA were considered by virtue of that very fact a continuous incitement to Latin American countries to "gang up" against the U.S. in order to force economic and other concessions which the latter was not willing to grant to the republics separately. These attitudes were further strengthened by the thinly disguised fear of influential U.S. foreign trade interests that expansion of intra-regional trade in Latin America would be detrimental to U.S. exporters. The absence of interest in Latin American economic development problems among U.S. economists and political scientists did not help to dispel this fear (31).

Thus, the statement to the effect that "U.S. policy toward the formation of Latin American regional markets has been favorable provided the proposals meet certain standards" (32) calls for a detailed definition and analysis of such conditions. They were presented in Washington in February 1959, by U.S. representatives in a working group of the Committee of Twenty One, an *ad-hoc* organ of the Organization of American States, in the following general terms:

(29) U.S. Senate, *United States-Latin American Relations*. Compilation of studies prepared under the direction of the Sub-Committee on American Republic Affairs of the Committee on Foreign Relations of the U.S. Senate, Washington, D.C., August 1960, p. 525.

(30) On this subject, see a section of the same volume dealing with U.S. policies in international organizations concerned with Latin America, pp. 525-535.

(31) This writer is not aware of any serious U.S. article or discussion of Latin American economic integration problems before mid-1960, the date on which the Council on Foreign Relations set up a study group to analyze the Montevideo Treaty.

(32) *United States-Latin American Relations*, p. 467.

1. Regional market arrangements should aim at trade creation and increased productivity through broadening opportunities for competitive trade and should not simply be trade-diverting. This means that the arrangements should provide for trade liberalization in all commodities — not just those in which members are competitive with non-members — and that duties and other restrictions applied by members of a regional market to non-members should not be higher or more restrictive after the formation of the market than before.

2. The arrangement should provide a definite schedule for the gradual elimination of virtually all barriers to intraregional trade, and this process should be completed within a reasonable period of time. The U.S. Government does not favor an arrangement that provides simply for regional preferences with little more than a vague hope of eventually creating a free trading regime.

3. The arrangement should be in accordance with the principles of GATT (art. 24) for the creation of a free trade area or customs union and should be submitted to GATT for approval. This is believed to be important not only because the GATT rules are in accordance with U.S. views with respect to regional trading arrangements, but also because agreements of this kind must be reconciled with the general agreement in order that the effectiveness of the GATT and the orderly system of world trade established under it may be preserved. If the Latin American countries were to set up their own arrangements without GATT blessing, it is feared that the whole GATT machinery might break down as a consequence of a proliferation of special regional preference systems all over the world. Latin American members of GATT include Brazil, Chile, Cuba, Dominican Republic, Haiti, Nicaragua, Peru and Uruguay. It is believed that inclusion of the regional trade organization in the GATT would also facilitate negotiations for a gradual reduction of trade barriers with non-members on a reciprocal basis. This is in accordance with the principle that regional arrangements should represent a step in the direction of worldwide trade liberalization.

4. Regional trade arrangements should aim at increasing the degree of competition within the area. This means not only that all or virtually all commodities should be freed from restrictions on interregional trade, but that exclusive monopolistic privileges should not be given to particular industries or that there should be no control agreements preventing competition. Not only it is believed that intraregional competition will increase productivity and investment within the area but that these conditions will also help to induce private foreign investment.

5. Regional arrangements should provide not only for free trade in commodities but also for the free flow of labor and capital in response to economic forces. Labor and capital should be free to move to places where they will be most productive. In this way, it will be possible to achieve the maximum benefits from economic integration.

6. Any regional market arrangement should provide for the financing of trade with convertible currencies. Neither bilateral payments agreements nor a restrictive regional payments regime, which involves discrimination against non-members, is justified.



The statement summarized above and representing the only detailed and specific definition of the U.S. position to date, embodied all the " fundamental principles of trade and finance " applied — albeit only in theory — to relations among economically advanced countries. It did not contain any trace of willingness to consider the special problems facing the underdeveloped part of the world. As a result, in many instances it raised non-existing issues, or proposed solutions for real issues which could not be enforced because of the nature of the development process in Latin America.

At the beginning of the statement emphasis is put on " trade creation " rather than " trade diversion ", as though Latin America with its lopsided and underdeveloped production structure could really afford to consider such an alternative. It is extremely difficult to envisage any trade diversion in the case of Latin American economic integration. Given idle resources (land, raw materials and labor) in all LAFTA member countries, the expansion of intra-ragional trade could hardly have a negative effect on the area's capability for exporting its traditional primary goods to the rest of the world. Progressive industrialization should at the same time offer the area the possibility of creating new exports not only to other members of the Montevideo Treaty but to the industrial sector of the world economy. Consequently, the over-all import capacity of the group would increase in the long run, and the presence of suppressed demand of tremendous magnitude within the area would make it possible to go on expanding the over-all import trade. Thus, the issue of " trade creation " versus " trade diversion " would appear to be completely spurious within the frame of reference of a trade arrangement involving a group of underdeveloped countries in Latin America.

For the purpose of " trade creation " and increasing productivity through broadening opportunities for competitive trade, arrangements should be made for trade liberalization in *all* commodities, according to the U.S. position. In the first place, not even the European Common Market fulfills this condition; and, secondly, both the very low mobility of resources and the scarcity of capital and technology characteristic of the less developed countries preclude the acceptance of such a condition. Following this advice would play havoc with the industrial structures — always precarious — that were created before the establishment of the regional trade grouping. Furthermore, no democratic government in Latin America or elsewhere could embark on such an operation without risking a political crisis at the very least, or overthrow by force, in less favorable circumstances.

The next assertion that unless a regional trade arrangement is not completely in accordance with the principles of GATT "the whole machinery might break down as a consequence of a proliferation of special regional preference systems all over the world", may be answered easily with two counterarguments: (a) it might well be that GATT itself needs overhauling if regional trade groupings of countries engaged in a development effort do not fit into it; and (b) since the regional trade arrangements should in the long run bring about an expansion of world trade and welfare, they should not be considered as negatively affecting "the orderly system of world trade", unless this last expression is to be construed as meaning the preservation of the present division between industrial goods exporters and primary goods producers.

As far as increasing the degree of competition within the area is concerned, one would assume and hope that this would be the case in any regional trade arrangement involving the less developed countries. The sheer increase in the size of the over-all market would make possible the functioning of more than one optimum size plant in a number of industries. The limited size of individual markets in Latin America is in itself very conducive to monopolistic practices. On the other hand, there is little proof, at least in this part of the world, that increasing competition is a factor which induces private foreign investment. Monopolistic tendencies seem to characterize any large dynamic enterprise whatever the nationality of its owners or executives.

No regional arrangement in Latin America can provide for the free flow of labor and capital now or in the foreseeable future "in response to economic forces". All the Latin American republics are presently labor surplus areas in terms of open or disguised unemployment, and the population explosion is the region's most serious worry. A free movement of capital within the area would clearly lead to concentration of industrial growth in the more advanced zones that are better endowed from the standpoint of substructure, thus accentuating intra-regional differences in development levels. On the contrary, the scarcity of capital resources and the needs of the least developed Latin American republics make it necessary to devise special mechanisms for directing new capital resources of domestic and external origin into certain activities and areas.



Finally, the U.S. position that "neither bilateral payments agreements nor a restrictive regional payments regime, which involves discrimination against non-members, is justified" amounts in practice to rejection of payments and credit arrangements of any type. It is divorced from Latin American reality and represents a very serious obstacle to all present integration programmes.

The conditioning the U.S. support for Latin American *common markets* upon the fulfillment of specific standards was accompanied occasionally by private proposals asking for a "hemispheric common market" including the U.S. and even Canada. The lack of response and interest in Latin America to these ideas as expressed by Nelson Rockefeller among others, was often taken as another proof that Latin American projects were — at least in political terms — aiming at weakening U.S. links with the rest of the continent (33).

Sometime during the year 1960, under the impact of the Cuban events and growing signs of anti-American feeling in other parts of Latin America, the United States started reappraising its postwar

(33) The National Planning Association paper quoted earlier approved of Western Hemisphere integration proposals, declaring that in the framework of the cold war "the nation of the Western Hemisphere may find themselves becoming more and more dependent on one another as sources of supply and as markets". In consequence, "acceptance of the goal of increasing Western Hemisphere integration by the United States, Canada and the Latin American states would do much to increase hemisphere morale and to improve hemisphere relations in the short term as well as to foster progress toward the long-range objective". *United States-Latin American Relations*, pp. 429-430.

The N.P.A. position is currently losing supporters in the U.S. as suggested by an article by Prof. Lincoln Gordon from Harvard University "Economic Regionalism Reconsidered", *World Politics* (Princeton), January 1961, pp. 231-253: [The proposal for a Western Hemisphere common market or free trade area]... is neither desirable nor feasible. It would cut across the developmental aspirations of the industrializing nations of Latin America, nations whose governments differ in many economic policies but agree on the importance of protecting their infant industries from being throttled at birth by massive American competition. The very proposal would raise charges of a new form of economic imperialism from the "Yankee colossus of the north".

economic policy towards the region. Within that over-all reappraisal — which became evident in the months preceding the inaguration of the new Administration — U.S. scholars made some initial effort to analyze the doctrinal premises of integration plans for the purpose of finding out why Latin Americans attach so much importance to these programmes and tend to reject summarily the standards set by the United States.

In some instances these scattered U.S. voices showed a willingness to admit that, contrary to general belief, Latin America and other underdeveloped regions press for regional economic integration not for the purpose of "ganging up" against the U.S. or because of immaturity or a perverse compulsion to violate the sacred rules of free trade, but because of necessity.

"All of the underdeveloped nations", wrote one of the U.S. President's advisers on Latin American problems (34), "are rightly preoccupied with economic development as one of their major objectives. All want to diversify their economies, to improve agricultural productivity and to industrialize... It can be predicted with some assurance that most or all of these countries will seek to promote industrialization through protection of domestic industry from foreign competition... In these circumstances the realistic question is whether such protection will be based on the very small markets of the individual sovereign units, leading inevitably to inefficient small-scale production and the frustration of many developmental opportunities or whether it will be on a regional basis with some promise of adequate market size and investment scale, and even some hope for competitive pressures within the regional areas. These are the most pressing reasons for fostering deliberately a form of 'developmental regionalism'... Desirable as they might be, it is unlikely that many underdeveloped countries will be prepared to joining full-fledged customs unions or free trade areas... A practicable policy of developmental regionalism will have to devise more limited forms of integration".

By the spring of 1961 this new attitude spread to the more progressive U.S. business circles, as witnessed by the following very recent statement by the Committee for Economic Development (35):

(34) LINCOLN GORDON, "Economic Regionalism Reconsidered", p. 248.

(35) CED, *Cooperation for Progress in Latin America*. A Statement on National Policy by the Research and Policy Committee of the Committee for Economic Development, New York, April 1961, p. 35.



"The United States should encourage the movements toward economic integration in Latin America... Many of the Latin Americans do not subscribe to the General Agreement on Tariffs and Trade and we should not expect their regional arrangements to conform to the provisions of the GATT governing free trade areas and customs unions".

At present the following propositions related to Latin American integration efforts are meeting with a slowly growing acceptance in U.S. intellectual circles:

1. The purpose of trade regionalism in less developed regions is to foster economic growth.

2. Individual national markets are insufficient to support many types of modern industry or to encourage the degree of specialization necessary for increased output.

3. Recent trends in trade between primary products and industrial countries would not appear to guarantee to the underdeveloped countries, at least in the immediate future, sufficient external revenue to finance individual industrialization efforts even when such an endeavor is otherwise feasible.

4. Neither can external financial aid in the form of credits and grants under present international programs be expected to fill the gap and provide resources for the development of these regions.

5. Common effort aimed at expanding present, and creating new, regional trade can have an important development effect and contribute to world welfare, since integration would diminish the discrimination resulting from trade barriers and the domestic economic policies of the countries participating in such regional trade groupings.

6. Present GATT rules were set up for the advanced countries. As far as customs unions and free trade areas are concerned, they might possibly work also in the case of groupings of the extremely underdeveloped nations on the opposite end of the scale; however, they cannot be followed by the semi-developed regions.

7. In the case of groupings like LAFTA, the "infant economy" argument cannot be lightly dismissed and, consequently, there is need for a very gradual dismantling of individual protection policies accompanied by the system of exemptions, escape clauses, etc.

8. The advanced countries, and especially the United States should help regional trade composites achieve their growth objectives

instead of insisting on their acceptance of standards and rules pertaining to relations among the industrial centers of the world (36).

This slow change described recently by a U.S. scholar (37) as a shift from the absolutist to the relativist approach towards world trade problems — has not as yet found clear expression in official U.S. policy towards LAFTA (38), although soon after his inauguration President Kennedy expressed United States support of Latin American efforts aiming at the " establishment of *common markets* ". Recent debates in the U.S. Congress on the subject of the Social Development Fund, announced at Bogota last year, and the Second Annual Meeting of the Inter-American Development Bank held at Rio de Janeiro in April, have not offered any clues either with respect to present official U.S. thinking on regional payments and credit plans, the financing of projects of regional scope, ways of encouraging inter-Latin American trade, etc. It is trusted that these issues will be clarified at the forthcoming Inter-American Conference of Treasury Ministers, scheduled in Montevideo in mid-July. Regional integration is one of the three main topics on the agenda of this new hemispheric economic meeting.

## The future of the Montevideo Treaty

There are reasons to believe that before long the Latin American Free Trade Area will comprise all the republics located on the mainland extending from the U.S. southern border to the Straits of Magellan, with the exception of six small Central American states. Colombia and Ecuador officially declared their readiness to join LAFTA; Bolivia is reported considering doing likewise at an

(36) " One can say of these regional trade arrangements only that they offer an opportunity for the speed-up of growth, but not an assurance that the speed-up will occur. If in their development they offer wider markets, more opportunities for specialization, more diversified sources of credit and a multiplication in sources of supply, the growth objective will be closer at hand. The influence of the United States should be used to ensure that the arrangements work in that direction ". RAYMOND VERNON, " A Trade Policy for the 1960's ", *Foreign Affairs* (New York), April 1961.

(37) BELA BALASSA, " Towards a Theory of Economic Integration ", *Kyklos* (Basel), Vol. XIV, 1961, pp. 1-17.

(38) The fact that the U.S. Delegation at the ECLA Trade Committee Conference at Santiago, Chile in May 1961 did not make any positive contribution to the long debate on problems related to the implementation of the Montevideo Treaty is regarded as a reflection of the lack of an officially redefined position.



early date, and even Venezuela's eventual adherence is much more probable now than in the past in view of the unfavourable international oil picture which may force that country to speed up diversification of its economy or risk collapse (39).

The success of the regional trade liberalization programme will depend much more on its growth in depth, i.e. increase in the number of commodities covered, than on its further geographical expansion. Data contained in Table II suggest that the expansion of the existing trade which is highly concentrated in a few commodities offers limited opportunities even for the southernmost republics. A few years ago, in the case of five out of the seven initial signatories to the Montevideo Treaty, *five* products accounted for *two-thirds* or more of imports from the present Free Trade Area (40).

TABLE II

COMPOSITION OF TRADE WITHIN LAFTA IN 1957-1958
BY MAJOR COMMODITIES
(*imports c.i.f.*)

| | Five major imports in order of importance | Percentage of total imports from the area, average for 1957-1958 |
|---|---|---|
| Argentina | Semi processed wood, coffee, bananas, timber, mate | 74.8 |
| Brazil | Wheat, fresh fruits, nitrate, barley, olive oil | 82.8 |
| Chile | Sugar, cotton, livestock, coffee, mate | 71.5 |
| Mexico | Tannin extracts, fertilizers, chemicals, books, fishmeal | 59.0 |
| Paraguay | Wheat, wheat flour, edible oils, edible fats, livestock | 32.0 |
| Peru | Wheat, meat, edible fats, butter, fertilizers | 64.0 |
| Uruguay | Sugar, mate, timber, coffee, cotton | 65.1 |

*Source*: Based on data presented in ECLA, *Composición de importaciones desde la Zona de Libre Comercio, por países.*

(39) Venezuela represents a special case because of its completely artificial domestic cost and price structure, making any Venezuelan manufactures highly non-competitive. The argument that joining LAFTA at this time would open that country to a devasting competition from other Latin American producers without offering it any export outlets is very convincing.

(40) A recent ECLA compilation of the intra-regional trade based on national import statistics of LAFTA members lists 160 tariff items. The ten leading ones — wheat, semiprocessed wood, coffee, sugar, mate, bananas, timber, cotton, fresh fruits and crude oil — represented in 1957-1958 71,7% of the zonal trade, and the first three (wheat, semiprocessed wood and coffee) 47%.

In addition, although substantial in regard to some commodities the existing trade is of marginal importance when compared with the total value of imports in the case of all the LAFTA members except Paraguay, where it represents about one-third of the external merchandise purchases. In the extreme case of Mexico, it is of no importance whatsoever, accounting for 0.25% of the total import trade.

TABLE III

TRADE AMONG LAFTA MEMBERS AND THEIR WORLD IMPORT TRADE AVERAGE FOR 1957-1958

*(imports c.i.f. in million of dollars)*

| | Imports from the Free Trade Zone countries | Imports from the world |
|---|---|---|
| Argentina | 173.6 | 1.271.5 |
| Brazil | 109.9 | 1.420.5 |
| Chile | 50.0 | 428.0 |
| Mexico | 2.8 | 1.141.6 |
| Paraguay | 10.5 | 35.0 |
| Peru | 21.9 | 367.6 |
| Uruguay | 33.5 | 203.0 |
| Total | 402.2 | 4.867.2 |

*Source*: ECLA and IMF, *International Financial Statistics*.

Opinions have been recently expressed in some quarters that by making a distinction between the existing and the potential trade and by committing firmly the participating countries to liberalize only the first, the Montevideo Treaty seriously limits the possibilities of overall trade liberalization.

"The fact that goods that are not actually traded between the seven countries — the Federal Reserve Bank of New York declared in late 1960 (41) — need not enter into the annual negotiations may permit the exclusion from the free trade area of the most highly protected products — those on which existing tariffs are so high as to shut out imports completely — and of goods that have not entered into trade by the end of the twelve-years period because they are still not manufactured in sufficient quantity in the region. The participating countries' intention of

(41) "The Emerging Common Markets in Latin America", *Federal Reserve Bank of New York Monthly Review*, Vol. 42, No. 9, September 1960, pp. 154-160.



including products not already traded within the area in the liberalization program is stated in the treaty, but since the implementation of this goal is left entirely to future negotiations, the Montevideo Treaty could fall short of its major goal of clearing the way for new trade".

Although it is true that the language of the Treaty in this respect leaves room for various interpretations (42), unquestionably its basic premise is that subsequent negotiations will result in an enlargement of the number of commodities or tariff items to appear on both national schedules and the common schedule, without distinction between the existing and new trade. Article 10 of the Treaty declares that the purpose of annual negotiations "shall be to expand and *diversify* trade" (italics added) and Article 9 states that the percentages governing periodical liberalization goals "shall be calculated on the basis of the average annual value of trade during the three years preceeding the year in which each negotiation is effected". Furthermore, it is known that the interested governments included in their first lists of products to be negotiated this summer not only goods presently traded but all the domestically produced offering prospects for exports to the area. It is to be expected that later on negotiators will submit additional lists of commodities whose production might be initiated in the interim and will be willing to consider import concessions on goods the demand for which was previously non-existent. In short, the stress being put in some non-Latin American quarters on the Treaty's possible limitations rather than its possibilities, seems to originate from a belief that the countries which joined LAFTA are only interested in getting out of this arrangement all possible unilateral advantages. It is difficult to envisage how any international trade arrangement, however perfectly worded, could function under such circumstances. Besides, this pessimistic attitude does not take into account a long history of negotiations preceding the establishment of the free trade zone in which a considerable amount of good will and common sense was demonstrated by all participants.

The possibilities of the new trade are not limited to industrial goods. Although the existing agricultural trade among the LAFTA members could hardly be expanded significantly, the inclusion in

(42) See, particularly, a series of comments published in *Inter-American Economic Affairs* (Washington), Vol. 14, No. 1, 2 and 3, Summer, Autumn and Winter, 1960.

the zonal trade of the *new* agricultural commodities presently imported from third countries would considerably increase its total volume. In recent years, only 60% of agricultural imports of the seven countries originated in Latin America. Their imports for the rest of the world include, among others, livestock and meat, dairy products, wheat and flour, other grains, tea, edible oils and fats, oilseeds, raw tobacco, raw cotton, wool, hides and skins (43). All these commodities are produced in very large quantities within the Association, and substantial exports of some of them are made to the outside world. The question, however, is not — as pointed out by a recent ECLA-FAO study — to replace simply outside imports by supplies from within the area but rather that of " taking advantage of the existing natural possibilities for complementary production, and of the facilities accorded in the Treaty, to develop additional production for coping with the expected increases in demand " (44). The special regime afforded agriculture by the Montevideo Treaty, clearly envisages such trade, although permitting its members " to limit agricultural imports to the amount required to meet the deficit in internal production ".

All these arguments do not dispose, however, of the real obstacles which the Treaty's implementation is facing. With respect to the trade liberalization programme, they arise from the policies of undiscriminating protection followed in the past by the Latin American countries, on the one hand, and from their present extremely complicated structure of trade controls and restrictions, on the other. There is a clear danger, known to all who watched the meager progress of the Central American integration programme, that powerful vested interests will try to block concessions on important groups of commodities produced in their respective countries. Attitudes of agricultural producers in Chile and certain

(43) They should be considered as new products not from the viewpoint of intra-zonal trade as a whole (all of them enter the flow of trade among some LAFTA members), but from that of trade of individual countries. Mexico, for example, still imports certain agricultural commodities but its agricultural imports from Latin America are practically non-existent. In this sense, Mexico's purchases of some foodstuffs and raw materials from LAFTA would clearly constitute the *new* trade.

(44) ECLA-FAO, *The Role of Agriculture in Latin American Common Market and Free-Trade Area Arrangements*, E.CN. 12/55, January 1961, p. 16; also VICTOR L. URQUIDI, " El mercado común y el desarrollo económico nacional ", *Comercio Exterior* (Mexico), Vol. IX, No. 11, November 1959, pp. 648-650.



industrial groups in Uruguay, hostile to LAFTA, points in that direction. The outcome is far from certain (45), but it may be not too naive to expect that soon will emerge countervailing forces both in the public and private sectors of the Montevideo Treaty signatories to exert pressure in the opposite direction. A valid question is whether the timing of the establishment of LAFTA is correct and if its postponment for a few years would have made its implementation less difficult. In that respect there is a consensus of opinion in Latin America that any delay in the formation of a free trade zone would have only compounded difficulties, as with the increasing diversification of domestic industrial production the strength of national vested interests would grow rather than diminish.

No doubt, the complicated structure of trade policies in the region will offer also an extremely serious challenge to the negotiators. In most Latin American countries, import regimes include in addition to customs tariffs a series of other charges and controls complemented by a wide use of various administrative restrictions. Only in Peru is the import tariff a principal commercial policy which determines the import composition. In various republics customs tariffs are clearly of secondary importance when compared with other measures, including exchange controls. To complicate the matter further, the practice of full or partial exemptions from import taxes and other restrictions is widely extended in Latin America, especially in the case of the public sector imports.

Under these conditions, unless the contracting parties — as provided by Article 15 of the Montevideo Treaty — " make every effort... to reconcile their import and export regime " and abstain from changing them continuously through administrative measures,

(45) " We should not be seduced by premature illusions in respect to the Free Trade Area " Executive Secretary, Dr. RAUL PREBISCH declared at the last ECLA Conference, in May 1961. " The governments made an all important step, but it is only the first step on a long road. They have now in their hands efficient instruments which make it possible to establish a common market... But the progress towards this objective will be difficult. My worry is that, if these decisions get bogged down into a long series of negotiations, it will be impossible to achieve the basic objective — expansion of trade in industrial commodities — and consequently the incentive to create a common market will be lost. For these reasons, I consider it essential that from the very beginning we define clearly and concretely objectives in regard to progressive reduction of tariffs on broad groups of industrial goods so that we know where we want to go ". Translated from the Spanish text of Prebisch' opening statement at the first plenary session of the ECLA Conference, Santiago, May 5, 1961, reproduced in *Comercio Exterior* (Mexico), vol. XI, No. 5, May 1961, pp. 276-278.

negotiators may be impeded by technical difficulties from establishing the magnitude of concessions to be offered or granted (46).

Additional obstacles will emerge from the absence in the Montevideo Treaty of any provisions regarding monetary and financial aspects of the trade liberalization programme. LAFTA sponsors do not have any responsibility for this serious deficiency, but the most recent developments prove that they continue to be aware of the necessity for further exploration on the regional level, not only of payments and credit aspects of the arrangement but also its implications for domestic financial policies linked with external trade. The idea persists that although the recent progress towards convertibility and payments multilateralization in South American republics (47) might make it unnecessary to revert to earlier plans for multilateral compensation of balances originating in the intra-zonal trade, the need for some multilateral payments scheme still persists. On a recent occasion an ECLA document recalled that even in Western Europe such a mechanism exists, namely the European Monetary Agreement, and suggested that it might be worthwhile to consider it as a useful precedent for the Latin American free trade zone.

Lately, the attention of LAFTA members was drawn also to the fact that some other important elements are missing in the regional structure. One of them is a provision for a development fund, similar to the European Development Bank, which would take care of financing some projects of regional interest, involving more than one country and/or extending economic assistance for development of the countries " at less advanced stage of development ". It has been observed that if the problem of underdeveloped zones in Italy and France is jointly considered as important by the Six in Europe the same issue is of much more urgent nature in Latin America. In consequence, plans are being discussed in an informal way in various capitals, looking towards the possible establishment

(46) Following the signature of the Treaty, ECLA experts completed a detailed comparative study of import regimes in eleven Latin American countries including all the LAFTA members. The study, covering a field never previously investigated, was presented to the ECLA Trade Committee meeting at Santiago in May 1961. See, ECLA, *Derechos aduaneros y otros gravámenes y restricciones a la importación en países latinoamericanos y sus niveles promedios de incidencia*, E.CN. 12/554, 13 de Febrero de 1961, 12 Vol.

(47) Payments between Brazil and three neighboring countries: Argentina, Uruguay and Chile, and between Argentina and Uruguay were still covered by bilateral accounts in the spring of 1961.



of a regional development corporation whose functions would be similar to these of the European Bank and the Development Fund for territories associated with the European Economic Community.

Another problem facing the LAFTA member countries is that of the lack of facilities for financing capital goods exports or, for that matter any commercial exchange within the area. There is a growing realization that cost disadvantages do not represent the only potential obstacle to the expansion of the intra-zonal trade in new products, mainly manufactures. Latin American producers do not have access to facilities offered to their counter-parts in the industrial centers both by private banking systems and governments. Medium-term export credits, government guarantees for exporters and similar measures are practically unknown in Latin America, and they are badly needed. It is unlikely that individual republics would be able to solve these problems by their own efforts. Thus, it is felt in many circles that joint regional action may be needed (48) in this respect too, provided support is forthcoming from the United States and international organizations, including the recently-established Inter-American Development Bank.

Not only these immediate problems but many others continue to attract the attention of Latin American opinion, problems which some five years ago would not preoccupy even the most enthusiastic supporters of the idea of regional cooperation. The first intellectual explorations are being made into such obviously remote fields as the practical implications of the coordination of economic and monetary policies to be applied when LAFTA becomes a common merket (49). Anyone following Latin American developments closely must be impressed by the speed with which the idea of regional integration is taking hold in one country after another.

(48) In his speech at the last ECLA Conference at Santiago, the President of the Inter-American Bank, Felipe Herrera, acknowledged that such inquiries are reaching the institution and informally suggested that the idea of a fund for promoting regional trade be investigated. Such an institution would use " not the Bank's resources, which fall short of needs, but additional resources which logically should be sought in countries interested in promoting Latin American regional integration ". " This idea may sound utopian now " — added Herrera — " but the idea of the Inter-American Bank was also considered completely impractical during some 70 years " (Translated from the Spanish text of the statement made by the President of the Inter-American Bank at the plenary meeting of the ECLA Conference, on May 13, 1961, at Santiago).

(49) See, Carlos Massad y John Strasma, *La zona de libre comercio en América Latina. Algunos problemas por resolver*, Instituto de Economía de la Universidad de Chile, Santiago, 1961, pp. VIII+39.

LAFTA was established less than two years ago in the face of serious political odds and general indifference of the masses in the region itself and despite the lack of interest or outright hostility in the industrial countries. Today its basic premises and objectives belong firmly to the mainstream of Latin American political and economic thought and slowly find acceptance in the outside world. But the future of economic integration does not depend in the final analysis either upon adequate solutions of many institutional problems left for future negotiations or the wording of the Treaty, which is of such concern to some outside observers. It depends to a much larger extent on the outcome of the present search of the underdeveloped regions for a new role in the world economy and on their willingness to introduce internally many basic reforms badly needed.

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N. B. Literature on Latin American economic integration is by now very voluminous, but unfortunately little of it is known outside of the region. Any student of the subject should consult abundant ECLA documentation starting with *Study of the Prospects of Inter-Latin American Trade* (U.N. Department of Economic Affairs, New York 1954) and including the *Latin American Common Market* (U.N. Dept. of Economic Affairs, New York, 1959). Most of the ECLA documents and studies, submitted to a series of international and interregional conferences held in 1957-1961, are available in mimeographed form only from ECLA Secretariat in Santiago, Chile.

Two independent detailed studies of the subject appeared until mid-1961: SIDNEY S. DELL, *Problemas de un mercado común en América Latina*, CEMLA, Mexico, 1959, and VICTOR L. URQUIDI, *Trayectoria del mercado común latinoamericano*, CEMLA, Mexico, 1960. The English revised edition of Urquidi's book will be published in the United States by the California University Press, later this year.

Further valuable insight in the regional integration problems can be had by consulting recent volumes of the following Latin American economic magazines: ECLA's *Boletín Económico de América Latina* (semi-annual, Santiago), *El Trimestre Económico* (quarterly, Mexico), *Comercio Exterior* (monthly, Mexico), *Económica Brasileira* (quarterly, Rio de Janeiro), *Panorama Económico* (monthly, Santiago) and *Mercado Común-América Latina* (monthly, Montevideo).