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# Basis for a Latin American Common Market\*

By Felipe Herrera, Washington

The trend of the developing countries toward integration results both from an aspiration for economic growth and from a dissatisfaction with the prevailing system of international trade relations. This phenomenon was clearly apparent at the United Nations Conference on Trade and Development in Geneva, where one of the most important topics was "regionalisation" viewed by the "marginal" or "peripheral" countries of Asia, Africa and Latin America as a means of promoting their growth and developing their external relations on a more even basis.

If the expansion of economic areas is of the utmost importance to the industrialised countries of Europe, since it permits them to maintain their competitive position in the world market through the utilisation of "economies of scale", such expansion is absolutely essential to developing countries still in the initial stages of industrialisation.

The current circumstances of the developing countries are essentially the same as those prevailing in the United States when it broke away from its dependence on England and rejected the role of producer of raw materials allotted to it in that scheme of dependency, seeking to strengthen its industry by creating a domestic market which was initially protected by high defensive tariffs. This "inner-directed policy" gained ascendancy during the Civil War, when industrial interests prevailed over the free trade policies advocated by the tobacco and cotton exporters of the South.

In most Latin American countries, and with special vigour in the larger and more populated nations, efforts are being made to replace imports of manufactured and intermediate goods and even some lines of durable consumer goods and heavy industry. However, because of the limited size of their markets, production costs under this process are, in many cases, very high and such industries can only be maintained through high protective tariffs.

The problem assumes even greater proportions if one considers the heavy investment and complex technology required for the more advanced stages of industrial production. Market integration is an essential factor in making this process economically sound by taking advantage of the principles of economies of scale and specialisation. It is obvious that integration of the present markets will not only facilitate the establishment of larger industries but also stimulate competition among producers of manufactured and intermediate goods, forcing them to improve their ef-

ficiency. It would also avoid the uneconomical waste of installed capacity exemplified by the ultimate paradox of a semi-industrialised region containing many factories protected by national tariffs, but which are operating at only half of their potential.

## Technology and Integration

Industrial development presupposes technological development. The assimilation of knowledge and experience from the more advanced regions is a process that the Latin American countries can accomplish, individually, only at very high cost. Meanwhile, the "technological gap" between our area as a whole and the industrialised countries continues to widen.

The technological backwardness of Latin America is reflected in the productivity of its labour force. The average productive capacity of a Latin American worker is barely 15 to 30% of that of a worker in countries where science and technology are intensively applied to raise productivity. It is estimated that only 10% of the economically active population of Latin America is employed in enterprises with relatively high technological levels, and these enterprises are usually foreign companies. The participation of external investment is valuable precisely because it brings with it the "know-how" which is so scarce in the developing countries; however, the best production methods have no nationality and the contrast is simply a result of the application of techniques developed in terms of broad markets covering vast geoeconomic areas. In other words, the assimilation of "know-how" on an extensive scale is closely tied, in our case, to the expansion of the regional market.

Fortunately, the increasing internationalisation of scientific and technological knowledge makes it possible for Latin America to absorb the advances made in other regions and to apply them to its own development needs. It is obvious, however, that coordinated regional action is essential to maximum utilisation of that opportunity, not only because integration will make it easier to meet the costs of assimilating and applying such knowledge and of modernising regional centers of teaching and research and using them for specialised purposes, but also because it affords the best means of transferring technology to Latin America without distorting the cultural heritage.

## Planning and Integration

It is now possible in the light of a few years' experience to evaluate the advantages and limitations of two Latin American schemes of economic unifi-

\*) This contribution summarises some of the most significant ideas of the author's speech at Georgetown University, Washington, D. C., June 22, 1966.

cation which have been modeled on more advanced forms and implemented on diverse bases.

It is common place to speak of the success of the Central American Common Market. However, we should recall that in 1965 alone, interregional trade for the area totaled \$ 140 million, compared to \$ 32 million in 1960. But, more important than quantitative expressions is the recognition of the fact that this dynamic growth has resulted fundamentally from the great expansion of trade in industrial products, currently estimated at more than 70 % of the total.

In the case of LAFTA, there has also been a significant increase in the flow of inter-regional trade during that period, amounting to 100 %, but the composition of such trade continues to be dominated by the traditional commodities bought and sold between those countries. The recent trend to expand trade in industrial goods is still far below the desired levels. These few figures illustrate the greater vitality of a common market system than that of a mechanism based on the elimination of customs tariffs on a product-by-product basis.

One should bear in mind the fact that if the process of integration in Latin America is restricted to liberalising intra-regional trade, or even to safeguarding the integrated market from international competition through a common external tariff, the existing gap between countries would inevitably continue to widen. The new investments fostered by the expansion of markets would be concentrated preferably in the more industrialised areas, since the greatest incentive to investment is the existence of an industrial base, fulfilling the essential prerequisites. São Paulo, Buenos Aires, Santiago, Córdoba, Medellín, Monterrey and Mexico City would undoubtedly increase their importance in relation to other areas. And although the over-all product of the region might expand at a higher rate, the net result would be to institutionalise within Latin America the "division of labour" between steadily progressing industrialised zones and areas relegated to stagnation.

The theoretical equality of investment opportunities associated with trade liberalisation exists only on paper for the relatively less developed areas and

countries of the region. That is precisely why a transitional scheme of preferential treatment for the relatively less developed countries and those with insufficient markets has had to be envisaged within the Latin American Free Trade Association. But even this incentive is not enough unless it is accompanied by real possibilities of channeling and locating investments within those areas.

Therefore, to speak of the economic integration of developing countries is to imply a need for some sort of investment planning on a regional scale. If such planning cannot encompass the economy as a whole, at least the goals of the respective national development plans can be harmonised and coordinated in terms of infrastructure works of regional scope or new sectors of industrial expansion. This would not be possible without the institutional apparatus of a common market and without the coordination of policies afforded by this type of integration.

The case of the automotive industry, in which, for lack of proper orientation of investments on a regional scale, assembly plants have multiplied, duplicating investments and creating new problems for future industrial integration, is sufficient proof of the urgent need for adopting a regional investment policy for Latin America.

#### **Economic Integration and Political Action**

Professor Hallstein began a lecture at Harvard University, in reference to the European Common Market, by stating: "We are not in business at all; we are in politics." In these words, he defined the profound political connotation of economic regionalisation.

In this connection, one of the most significant recent developments in the process of Latin American integration is precisely the emphasis being given to its political aspects. If we are to accelerate our economic integration, we need to act at the politic level to set up community institutions endowed with regional authority. It is through such entities and through other institutional guidelines which we provide for the Latin American common market, that we will be able to orient our productive forces dynamically and effec-

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tively. This political approach would obviously not have arisen without the prior evolution of economic conditions which, in order to be promoted now, require public action.

If we reflect on the epoch of disintegration it is evident that the political aspiration of our leaders to maintain the unity of our republics amounted then, in the absence of economic foundations, to no more than "plowing in the sea".

The attempts, first, to preserve Spanish American political unity and, later, to reconstitute a fragmented order, were condemned to failure for lack of the dynamic factors essential to economic cohesion. Today, we find ourselves at the opposite extreme: the forces tending toward economic integration will find no valid expression unless factors favouring political integration are created. The political integration of Latin America is not Utopia today but a reflection and, at the same time, an effective tool of regional economic union.

### **Economic Developmentism**

Particular stress must be placed on the political approach to Latin American integration in view of the fact that, however much the nations of the area progress towards more advanced economic stages, given the different starting points which they have had in comparison with the more industrialised countries, they will find it difficult to attain comparable levels of development.

Even assuming hypothetically the rapid development and integration of our continent, it will still be virtually impossible to reach the living standards of societies historically far more advanced. We will inevitably be plagued by the same mirage as that experienced by the traveler in the desert who, believing he has reached an oasis, realises that his shimmering pool of water has moved still further into the distance.

An exclusively "economic developmentism" formula for attaining the stature to which Latin America aspires in the contemporary world is incomplete in itself. We must achieve economic development for the well-being of our countries and our peoples, but the sheer power derived from the growth of our economy will not assure us of great weight in the world of the future unless we achieve a cohesive community through a policy of common objectives in relation of other blocs, regions or great nations.

Just as an integrated Latin America will make possible the development of an "economy of scale" at the economic level, so it will make feasible at the political level the establishment, for the first time in our history, of a "policy of scale", that will ensure our proper and effective international role.

### **Criticisms of Integration**

In some quarters, the integration process, by being considered as a "conservative approach" to the profound social transformation now at work in the hemi-

sphere, is defined as an "escapist" alternative. These same critics generally emphasise the following additional two views:

□ Integration is an attempt to establish a broader market in Latin America for the benefit of the large foreign corporations, which would best be able to profit from the trade facilities offered by an expanded market

□ In view of the prevailing structures of social organisation within our communities, the benefits of greater economic progress resulting from integration would exclusively favour the traditionally privileged sectors, to the neglect of the interest of the great national majorities.

Many who express such criticism do not deny the advantages of integration, but consider that if it is actually to represent a step forward in our social evolution it must be preceded by structural changes. Along these same lines of thought, some critics argue that it is dangerous to overlook the problem of the diverse ways in which the system of representative democracy functions in our countries.

This type of reasoning is more proper to a static and mechanistic concept of the historical process. It ignores the fact that the very process of economic and political integration will, by establishing new means and categories of collective coexistence, generate new forces and trends toward economic and social change. The experience of different regions and eras indicates that the integration process entails important sociological transformations.

### **The United States and an Integrated Latin America**

The desirability has been suggested of establishing a single Hemispheric Common Market extending from Alaska to Patagonia rather than an integration system confined to Latin America alone. Such a suggestion is unrealistic for the obvious economic reasons which have created a gulf between the United States and Canada, on the one hand, and the Latin American nations who are currently experiencing a much more rudimentary stage of industrial and economic development, on the other.

The political, intellectual and business leaders of the United States who support Latin American integration have understood the situation in these terms, realising that a Latin American common market will project itself as a strong pillar of a solid inter-American system. No better formula for the strengthening of inter-American relations can be found than the integration of Latin America, since it will permit this relationship to develop on a more balanced plane, preventing the frustrations inherent in bilateral contacts between a nation of great economic and political vigour with each of the Latin American nations who lack comparable vigour.

By supporting Latin American integration, the United States is continuing along the historic course it initiated by encouraging a European economic community. The political drive which aspired to create a united

Europe in the Old World would have failed without the decisive argument of the United States that Marshall Plan aid required a multilateral and concerted European approach.

Essentially there are three ways to enforce the integration in Latin America by means of cooperation with the USA.

- ☐ Continued US cooperation in the Alliance for Progress Program.
- ☐ Additional US contributions to the Inter-American Bank could enable it to fulfil its commitment as "the Bank for Latin American Integration" better.
- ☐ Financial support of a "payments union" in Latin America, which has to be the starting point of a common market.

#### **Suggestions for the Organisation**

The foregoing concepts lead to the conclusion that conditions have now developed to a point where the countries of Latin America can adopt a program leading to the establishment of a Latin American Common Market. To implement this program, it is essential to define its scope and successive stages in a "General Treaty" linking the countries in a system of mutual rights and obligations conducive to the stated goal. Some experts believe that the provisions of the Treaty of Montevideo, supplemented by a special protocol, might serve as a suitable legal framework for this purpose.

In my opinion, a common market system should envisage the following basic aspects:

1. The Latin American Economic Community should include all the countries of the area. This implies a common market system extending from the Rio Grande to Patagonia and including the countries presently associated in the Central American Common Market and the Latin American Free Trade Association, as well as those nations of the inter-American system that have not yet joined either group.
2. It will be necessary to define an institutional framework for that Community. "Community organs", similar to those of the EEC, should be established and the authority of each stipulated.
3. Procedures should be established for automatically and progressively eliminating tariffs on intra-regional trade, together with a mechanism for arriving at a common external tariff. The Community should serve as spokesman for a common trade policy. Its activities would have fundamental importance in safeguarding the basic export commodities of Latin America.
4. Provisions should be included to ensure the unrestricted movement of persons, services and capital between the member countries of the Common Market.
5. The need for a "regional investment policy", reflecting the application of planning on a regional scale, should be recognised. This policy would relate the objectives of current national development plans to sectors and projects of multinational or international scope.

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In particular, the essential features of regional agricultural and transportation policies should be defined. These two sectors should be given priority in order to overcome existing obstacles to the general development of Latin America.

6. To ensure maximum effectiveness of the regional investment policy, the principle of "balanced economic development," implying priority recognition for the relatively less developed countries, should be acknowledged. In line with this principle, subregional schemes, that can gradually lead to the formation of the common market, might be acceptable.

7. The need for long-term financing of investments favouring integration should be envisaged, together with those required to offset possible imbalances in the regional productive system deriving from the establishment of the common market.

The Inter-American Bank, which provides a means of pooling and channeling regional resources with those of the capital-exporting countries, is a valuable tool for these purposes.

8. Guidelines should be established concerning the role of international public cooperation and of private investment, both domestic and foreign, within the common market framework.

These guidelines should be pragmatic, taking into account the prevailing "mixed economy" system in Latin

America. They should also contain the necessary incentives and safeguards for domestic private enterprise and the bases for what might be termed a "multilateral statute for foreign investment."

9. Bases should be specified for the financial and monetary policies of the Community countries and the mechanisms for their coordination on a regional scale should be established.

This implies a multilateral commitment to maintain sound fiscal and monetary policies consistent with balanced development of the member countries and an inter-regional payments scheme. The development of a regional central banking system should be considered as a final goal.

10. The treaty should maintain a system of legal coordination, including the obligation not only to adopt community law but also to harmonise the respective national legislations in fields directly relating to activities covered by the common market.

11. It will be necessary to specify as an objective of the common market the harmonisation of social policies aimed at achieving full employment and protecting social rights. Special consideration should be given to the promotion of agrarian, tax and administrative reforms, which, in the light of the Charter of Punta del Este, already represent commitments to modernise our present structures.

The Economic and Social Council, serving as a forum for governments, management and labour organisations, will have an important advisory role in the implementation of these multilateral policies for social reform.

12. The necessary means and mechanisms should be provided for establishing simultaneously "a common market of Latin American science and technology." This assumes a commitment for multilateral coordination in the utilisation of domestic and foreign resources allocated to these fields; in the assimilation and dissemination of scientific and technological knowledge; in the coordination of higher education through the mutual recognition of curricula and degrees, and in the specialisation at a regional level of higher centers of research and professional training. The Cultural and Technological Council would perform an important function in an advisory capacity in all of these areas.

For this reason the Treaty of Montevideo ought to be modified or new agreements have to be found. This new form of cooperation will make far-reaching political decisions necessary. But the Latin American nations have already taken similar steps in other sectors, and it would be paradox, should they refuse to take this step, which is so decisive for the accelerated economic development, in their own region.

## New EEC-Initiatives in Spain

By Hans-Otto Glahn, Madrid

Almost five years ago the Spanish Council of Ministers decided to inquire in Brussels whether there were any chances for Spain's membership or association with the European Common Market. All the same the negotiations on future relations between Spain and the EEC did hardly succeed at all, properly speaking they have got stuck in the initial stage of occasional discussions hardly to be considered as negotiations.

In Spain itself the situation has changed very much indeed. In the Spanish economy a pronounced boom can be registered and also in the political sphere changes have occurred. Although General Franco's régime has remained in power, there are endeavours to change the country's political structure from a totalitarian régime to a form of government more resembling that prevailing in other European countries which are members of the EEC.

Even today there are still many forces in Spain that in the long run do not at all welcome an integration with the EEC—which long term would not only be economic but also political integration—and are dreaming of the formation of a Spanish-Latin American economic community. But the group advocating EEC membership is predominating. The recently inspired re-

sumption of negotiations and the appointment of the former Minister of Commerce Ullastres to the post of ambassador plenipotentiary to the EEC—made on the occasion of the last regrouping of the Council of Ministers—is proving that the Government has recognised Spain's approach to the EEC as being particularly urgent for the country's economic development.

### Rapid Economic Progress

The currency reform of July, 1959, is the juncture of Spain's post-war economic development. Since that time the country is experiencing a steady growth process, in which the quickly increasing mass-tourism has particularly favourable effects. During the last years Spain has been opened up for tourism to an extent appearing unimaginable in 1959 despite the importance this foreign exchange source had already achieved then. In 1966 about 15 million tourists will have visited Spain and foreign exchange earnings will amount to much more than \$ 1,000 million. Tourism became one of the most important surplus items in the balance of payments.

Today Spain is no longer an almost exclusively agricultural country as it was a few decades ago. Its in-