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Common Market—A Step towards Unification

By Dr Friedrich Wehner, Hamburg

The focus of the Conference of the Organisation of American States held in April 1967 at Punta del Este was the efforts to achieve the economic integration of South America. The most important item in the "Declaration by the American Presidents" at Punta del Este is the projected creation of a Common Market for the whole of Latin America. The Latin American Free Trade Association (ALALC) and the Central American Common Market (MCC) are to be the foundation for economic integration over a vast area. The statement put out by the Punta del Este Conference is, however, only the first step along the road towards the economic consolidation of South America. It is now up to the Latin American countries to bring true these oft-repeated protestations of Latin American solidarity. All the Latin American countries will have to co-operate purposefully to tackle the tasks ahead of them and they will need the support of the larger industrial nations, particularly the United States. Nothing less than economic collaboration between the countries of the American sub-continent, forgetting all national rivalries, would enable Simón Bolívar's dream of a strong and united Latin America to become a practicable reality. The following contribution discusses the ways and means of Latin American integration, the results achieved hitherto and the prospects for a comprehensive unification of South America—including political unification.

Among developing countries, those located in Latin America have taken the lead in carrying out practical experiments in regional consolidation directed at achieving a common market. On 18th February, 1960, seven states—Argentina, Brazil, Chile, Mexico, Paraguay, Peru and Uruguay—concluded the "Montevideo Agreement"; this decreed the establishment of a free trade area and the foundation of the Latin American Free Trade Association. In 1961 Colombia and Ecuador acceded to this Agreement, in 1965 Venezuela and now, more recently, Bolivia too. Thus, with the exception of Guayana, the whole of South America is now included; counting Mexico, this gives a total of ca. 210 million inhabitants. In Central America, five countries have joined together in the Central American Common Market, based on an "integration agreement" dated 13th December, 1960; this was preceded by several preliminary agreements. Initially, the countries involved were Salvador, Guatemala, Nicaragua and Honduras; these were later joined by Costa Rica. This area contains currently more than 13 million inhabitants; in 1950 it contained ca. 8 million. The model and incentive for this step was the establishment of the European Economic Community.

Now that a few years have gone by it is possible to make some evaluation of the outlook for this union, especially in view of the recent intervention by the USA.

To the outside world, Latin America still looks the same as before. By and large, there have been few changes in its monocultural and lop-sided economy, its extreme social differences, the low standard of liv-

ing of the masses, irrational budgeting by the state. Closer observation, however, will show numerous indications of internal stabilisation and serious efforts towards reforms which should not be overlooked. Apart from the major targets of basic structural change, one becomes aware of a number of positive results in individual sectors indicating a certain degree of initial success, such as to constitute important premises for future development. They have moved at least a little closer to the target of intensifying trade between member countries.

Latin American Free Trade Association

Since 1961, trade between members of the Latin American Free Trade Association (ALALC) has risen from US \$ 659 million (equal to 6% of the total foreign trade of these countries) to US \$ 1,403 million in 1965 (equal to 11.34 %). Ratios similar to those of 1965 were achieved in 1953—55, although no special preferences were then in force.

An analysis of trade movements shows that it is still the "traditional" goods, in the main, which are exchanged. Products from tropical and temperate zones and metal products are a natural, if limited, complement to this exchange.

Naturally, these opportunities for export and import are limited and profits from these do not form a stable foundation for the economy because of acute price fluctuations and differing harvest yields. Additionally, exports of "traditional" products are limited by the increase in domestic demand and insufficient improvements in agricultural production methods.

It will not be possible to say definitely that a change has taken place until trade has been placed on a broader more constant footing based on the export of industrial products. This is the only way to achieve a definite relocation of emphasis from traditional imports from industrial countries, thus boosting the development of Latin America's young industries. However, only a few countries have such industries—primarily Argentina, Brazil and Mexico; these countries are at the beginning of a stage of development where it is felt that exports should be encouraged. In general, present industrial capacity does not suffice even for the domestic market. High tariffs ensure sufficient earnings, so that there is no incentive to export in order to obtain an efficient exploitation of capacity. These high tariffs prevent the establishment of a price structure which could stand up to international competition. Every country sees industrialisation as a primarily national aim; but Latin America can only achieve this aim by co-ordinating its industrial development, i.e. by reaching agreement on industrial production. This, however, means renunciation and sacrifices regarding the special projects of the individual states, but it is obvious that in the countries of Latin America the incentives are insufficient to encourage such a far-sighted supra-national policy.

Co-ordination of Industrial Production Essential

The reasons why relatively little overall progress has been made are numerous, but typical of the problems facing developing countries. The Montevideo Agreement, as such, certainly does not offer a basis for large-scale development. After years of efforts, it came into being primarily due to the initiative of the UN Economic Commission for Latin America (CEPAL), headed by Raúl Prebisch. Although his efforts had the support of discerning government representatives, initially it met with widespread indifference—not to say rejection—although this gradually gave way to an understanding of the need for such efforts. The Montevideo Agreement is a compromise between wish and reality; unlike the EEC Treaty, its authors had to abandon the idea of transferring any supranational authority to the ALALC organs and had to content themselves with limiting their actual aims to encouraging trade between themselves, without setting up common external tariffs. Several moves have been made over the past few years—particularly by Chile's dynamic President Frei and by the President of the Inter-American Development Bank, Felipe Herrera—with the idea of achieving effective integration, including the gradual removal of internal tariffs in agreed stages, and to create common external tariffs, but these have all failed. Under the provisions of the Agreement, any reciprocal concessions must be in the form of preferences and these have to be negotiated bilaterally in a laborious procedure. This means that both national and private interests create an obstacle in the way of any bold treatment, so that hitherto agreement has been reached only on those preferences where it was possible to grant concessions without

making any major sacrifices on a national scale. The large number of concessions made to date—and these become more cumbersome year by year—may obscure their actual effectiveness. In fact, little progress has been made towards the declared aim of removing all obstacles within 12 years.

The main deficiency in the ALALC Agreement is a method for co-ordinating industrial development and harmonising national development plans. These are, however, the essential pre-requisites for supplementing trade by industrial goods.

Deficient Communications

In practice, one of the main reasons for this hesitant progress towards integration is the lack of good road and communication networks between the countries. Hitherto, these countries have lived side by side and their historical development is such that they have been opened up only partially, mainly in the coastal regions—starting from their capitals. The wide regions which are, on the whole, only sparsely inhabited, have so far been only partly integrated into the national economies. For this reason there is scarcely any regular frontier traffic and state frontiers are mainly in the wilderness. The towering, barren Andes, running North to South, also make communications more difficult; indeed, they cut the countries, through which they pass, into separate zones which are not adequately linked even to the rest of the national territory. Most of the countries of South America share in the huge Amazon basin. The plans for a road running North—South, East of the Andes, as suggested by President Belaúnde of Peru, would be a first step towards creating large-scale land communications, together with the Pan-American Highway, large sections of which have been finished (this runs to the West of the Andes), and a projected East-West route from Brazil towards Ecuador. At present the main methods of communication are by the well-developed air routes and by water; the countries in ALAMAR have joined together to develop inter-zonal waterway communications. But, in their present condition, even waterways are an insufficient basis for the healthy development of traffic inside Latin America.

One of the main difficulties of integration is the signatory countries' differing stages of development. Initially, the Agreement took account of this varying degree of development by granting special rights to Paraguay, Ecuador and Bolivia. As a result, three groups rapidly emerged: the three so-called "major" countries, Argentina, Brazil and Mexico, are faced today by two other groups. One consists of Colombia, Chile, Peru, Uruguay and Venezuela—the countries with insufficiently developed domestic markets—the other of Bolivia, Ecuador and Paraguay—the countries whose economies are relatively even less developed. There are considerable differences even within these three groups. On the whole, the three major countries are negative in their attitude towards demands for a rapidly progressing liberalisation, which is what above

all the countries in the middle group are pressing for. Differing opinions and interests have given rise to bitter controversies—in December 1966 these even caused a temporary adjournment of the ALALC Conference. This lack of homogeneity—a vital requirement where integration is concerned—also shows up in the monetary field, where currencies are subject to very different degrees of stability.

Central American Common Market

The prospects for the Central American Common Market (MCC) are relatively more favourable, as are its achievements. Apart from liberalisation of trade within the area, which has been almost completed already, agreement was reached on common external tariffs and these, except for a minimal residue, have been enforced. Thus the target for the first five years has almost been achieved. In 1950 trade stood at US \$ 8.3 million (equal to 2.8% of the total trade of these countries); in 1960 it had risen to US \$ 32.7 million (a share of 7.5%) and in 1965 US \$ 142.2 million (equal to a 17% share). In 1962, finished goods accounted for 33%; in 1965 this figure rose to 43%. Imports of foodstuffs have already fallen considerably.

Integration has also progressed systematically in other fields. With the help of the Central American Bank for Economic Development (BCIE), located in Tegucigalpa, the Central American Industrial Research Insti-

tute (ICAITI) and of credits from the Inter-American Development Bank in Washington, it has been possible to make considerable progress towards co-ordinated industrialisation. A whole range of industries has grown up which could hardly have come into being without the assistance of these organisations. The Central American Industrial Research Institute was founded in 1965, at the instigation of CEPAL and is located in Guatemala. This Institute advises and encourages national and regional industrialisation, carries out project studies and market research and has a staff of experts available. Based on the experience of earlier years, the Central American Development Bank was founded in May 1961; it is located in the economically weakest country—Honduras. This bank was founded to promote development mainly in connection with infrastructure projects and projects of regional significance. Up to 1965 the Bank had lent US \$ 38.1 million for 99 projects; since 1965 the Bank has also administered an integration fund, in which national capital is becoming increasingly interested. New industries have grown up mainly in the foodstuffs, textiles and clothing, timber and rubber sectors, and also in the metallurgical and electrical industries. Oil refineries have been built in all of these countries, too. These industries are now making a growing contribution towards supplying the entire zone so that—contrary to the ALALC area—true changes in the external trade structure are already apparent. Beneficial



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effects upon the overall economic situation can be observed everywhere in a general economic upsurge. The gross domestic product has risen from US \$ 2,000 million to US \$ 3,100 million in 1962 and US \$ 3,400 million in 1964.

Favourable Outlook for Monetary Integration

Improvements have also occurred because of the joint payments arrangements and a joint compensation procedure. The "Compensation Chamber" does its accounting on the basis of the specially created "Peso CA" (equal in value to one US dollar). It has already been stated that the share of intra-zonal trade carried out on this compensation basis in 1963 was 90%. This shows that the anticipated monetary union is close to practical realisation. The prospects for monetary integration are better in the Central American zone than in the ALALC countries. In general, Central American currencies are more stable and mainly based on the US dollar; they are fully convertible and there is no "dirigiste" guidance of foreign trade, as is still often the case in South America. In Central America it is precisely the monetary situation which holds out good prospects for progress in zonal liberalisation and for inter-territorial fusion. Other projects are directed at unifying the road and traffic systems and communications.

Although, in criticising the Central American Common Market, people often speak of the slow progress achieved, it is essential not to overlook the fact that the points of departure of these countries differ and that basically they were very under-developed. National inhibitions create just as great obstacles as do insufficient purchasing power, the lack of properly trained skilled labour and—in South America—the typical political and social insecurity. The per capita income in Central America in 1964 was only US \$ 218. The economy still depends to a great extent upon the fluctuating profits from a few traditional products like coffee, cotton and exotic fruits.

There is a considerable political difference compared with the ALALC countries. The five Central American countries in the Common Market had a common history until about 1840, when the previous union dissolved. Repeated attempts to restore this union all failed, due to the uneven development of these countries over the years. Since 1951 they have again had a joint political organisation (ODECA), albeit only a loose one. Unlike the ALALC area, all efforts towards economic integration in the Central American countries are based upon a certain feeling of political unity. Let us add the sober thought that each of these countries on its own would not really be able to cope alone with the demands of rapid development, whereas the area as a whole can stand as an independent unit.

The Punta del Este Conference

A certain re-organisation has recently been initiated in the Latin American Free Trade Area. The efforts made for many years by the ALALC Secretariat Gener-

al to involve directly the Foreign Ministers of member countries finally led—at the annual conference held in December 1966—to an important amendment of the Montevideo Agreement. The "Council of Foreign Ministers" has now become a permanent institution—a supplementary and supreme political organ. Previously the highest organ was the so-called "Conference", composed of delegations sent by participating countries. The "Conference" was weak and without influence because individual delegations had insufficient powers. The new solution was the only way to smooth the path for gradual political integration.

There is a not insignificant connection between this amendment of the ALALC Agreement and the resolutions passed at Punta del Este. The countries of Latin America (with the exception of Cuba) have demonstrated the solidarity of the American nations, through their Presidents, by signing the Punta del Este Declaration. They wish to make this solidarity a fact by creating a common market. The fact that the President of Ecuador did not sign does not place any obstacle in the way of that country's basic agreement.

This common market is to come into being between 1970 and 1985. The Declaration also contains the whole wishful vocabulary of Latin American rhetoric and euphoria. So far it contains no new ideas. Where it differs from earlier declarations of the same type is in its clearly expressed aim of creating a common market by continuing and merging the two integration movements which have been initiated, as well as in wishing most definitely to continue the "Alliance for Progress" in line with the Protocols of the Organisation of American States (OAS). A further important item is the involvement of the United States due to President Johnson's spectacular intervention. Although he was not able to commit himself to the concrete promises of aid which had been envisaged because of the negative attitude of the Congress of the United States, his general assurances of support in various fields create a stronger tie and engagement for all parties than has ever existed heretofore. His appeal for Latin American countries to use their own resources is given special emphasis.

The target is definitely a Latin American common market, not a Pan-American market. Emphasis is laid upon Latin American solidarity which is to be supported by the United States. By and large, economic union is now close to becoming a sober fact; the period of Kennedy's idealistic impact is over. References to an "historic hour" and frequent mentions of Simón Bolívar are certainly justified. This should be the first and only opportunity to get a step nearer to Simón Bolívar's target of unifying Latin America. This should be the hour of "economic emancipation" (*emancipación económica*). The Punta del Este Declaration has forced into the background certain Pan-American aspirations concerned with the creation of a common military force in favour of solving the most urgent econo-

mic and social problems of Latin America. This is also the slant of the resolutions dealing with restricting military expenditure; these are aimed at concentrating all resources upon integration.

Decade of Urgency

It now remains to be seen whether concrete results can be achieved supra-nationally. The immediate tasks are the linear, step-by-step reduction of internal tariffs, a common external tariff and the evolvement of a programme for co-ordinated industrial development. The ALALC developments will be decisive, for the whole project, in fusing the whole of Latin America into one common market. Central America is of little importance in the overall framework, but can offer an abundance of experience in supra-national solutions. The greatest obstacle is still the lack of enthusiasm internally for supra-national viewpoints. The Foreign Ministers are now obliged to set up, in their own countries, the administrative arrangements necessary to achieve these integration targets. At the next conference every party to the Agreement has to submit his liberalisation programme.

The main question is still whether, and how far, the parties are asked too much at their current phases of

development. However, it must gradually come to be realised that any type of economic integration is, in the final analysis, a political act. Somehow or other, national sovereignties have to be abandoned. This admission will have to be made before the state of tension from which ALALC is suffering can be relaxed and is the only way in which its mentality can be adjusted to the requirements of the industrial age. Decisive success can come only from an awakening of Latin America's own potentialities.

Like all other industrial countries, the United States has a very great interest that Latin America should develop into politically viable and socially stable countries. The "Alliance for Progress" has already succeeded in making a considerable contribution towards healthy reforms in Latin America. The Alliance now requires a more impressive success which might stem from combining the aims of the Alliance with those of the Punta del Este Declaration. The tempo of fusion in all Latin American countries must now be raised. It is to be hoped that the "Decade of Urgency" which has been proclaimed will not remain merely a slogan, but that considerable progress will be made towards attaining the targets set within the deadline of 1985.

CIVIL AVIATION

An Example of Development Aid

By H.-Jochen Reuter, Frankfurt/M.

Development aid is supported by humanitarian, political and economic motifs. In the following, only the economic aspects of development aid will be considered.

From economic points of view development aid means giving and receiving. The conception of development aid being mere giving is—if ever it was of significance—no longer valid. In the framework of development aid donations have mostly proved a failure. In the interest of both, the donor as well as the recipient country, today's development policy aims at the establishment of economic partnership.

This means for the donor country to employ the means—capital or technical aid—in a way to allow exchange of goods and services between the partners.

In the development phase of the countries the sales prospects of the donor country are especially favourable with capital goods and consulting services, provided the means are directed accordingly. These aspects have been the subject of numerous theories to which some concrete considerations may be added in the following. An especially actual and promising

start for a reasonable promotion of the developing country with simultaneous effects on the economy of the donor country offers the economic sector of civil air transport.

Significance of Air Traffic

For most of the developing countries civil air traffic is of utmost importance in view of their economic development.

At present, traffic in nearly all developing countries is developed unsatisfactorily only. Sufficient, reliable and cost favourable transport connections are, however, among the most important prerequisites for economic development. The lack of trafficways keeps down the exchange of goods and passenger transport between the regions of a country; it reduces the value of local raw materials; it limits the potential sales markets for local industries; it excludes the country from international trade and impedes a superregional integration, to mention only a few of the repercussions. There is no doubt of the necessity of creating the prerequisites for a more intense exchange of goods and passengers.