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The Latin American regional market: the project and the reality

*Germánico Salgado**

The purpose of the present article is to supply some background data for a redefinition of the objectives, methods and instruments of Latin American integration: a restatement of the case which the author considers an indispensable requisite for restoring vitality to the movement. In his opinion, Latin American ideas on integration have unfortunately clung too fast to theories whose validity for our societies is slight, and have attempted to keep in step with experiences in industrial countries which are remote from the realities of under-development. On the basis of the region's own experiences and of clearer conceptions of what integration can be expected to offer, it is possible to inquire into which styles or patterns are technically suitable and which of them may be viable for Latin America.

To this end, the article begins with a rapid review of the original CEPAL conceptions of Latin American integration, and goes on to analyse the evolution of ideas in the course of the negotiations that led to the establishment of the first integration groupings in Latin America. Next follows a brief outline of the obstacles which integration movements have really encountered on their path, both in Latin America and in the case of some experiments in the rest of the developing world; and in conclusion attention is drawn to some of the significant factors accounting for the problems by which integration has been beset, so as thence to deduce criteria that will be of help in forming opinions on the patterns and instruments of a viable integration programme. By way of final recapitulation, these concepts are contrasted with those that served as foundation-stones for the construction of the formulas on which Latin American integration has hitherto been based.

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I

The original CEPAL theses on a Latin American regional market

A great deal of water has flowed under the bridges since CEPAL, in the *Economic Survey of Latin America* for 1949, began systematically to promote Latin American integration. A wait of rather more than ten years ensued before this study bore fruit and the first formal integration systems came into being. The course they followed was hopeful at first, then hazardous and wavering. To the original groupings others were later added, with their own conceptions and formulas. They too have moved on from an initial stage full of activity to phases of conflict and uncertainty. Some of the systems have overcome the worst problems; others are still sunk in stagnation. The experience gathered up to now indicates a difficult journey, with considerably fewer achievements and many more troubles than had been expected. Nevertheless, Latin American integration is still one of the aspirations of our peoples: a sort of intuitive response to some of our most deep-rooted problems, the logic of which is questioned by few. Experience has indeed left behind it a certain scepticism as to the viability of some of the objectives and methods that we have chosen hitherto and an awareness of the pitfalls along the road. But concern for the whole question is still alive in the rising generations of Latin Americans, as it was at the start of 1950 in the generation then beginning to assume responsibilities in national life.

It is because of this, because that concern exists and experience has now been gained, that it is needful to look back on the past with a critical eye and strive to discover the direction that should be taken by this impulse towards integration, now to a great extent shackled by inappropriate formulas. Obviously, a critical survey of this kind must begin at CEPAL's original ideas on the subject, for in them lie the seeds of the movement that led to the first integration

efforts. And it is entirely symbolic of the intellectual freedom which was and is characteristic of CEPAL, that these pages should make their modest contribution to the celebration of its thirty years of existence in the form of an analysis that starts by questioning some of its early conceptions.

From the very outset, Latin American integration was one of the essential elements in CEPAL's theses on the development of the region. One example that has already been mentioned is afforded by the *Economic Survey of Latin America, 1949*. As soon as a favourable opportunity offered itself, CEPAL intensified its promotional action, in which it never flagged until in 1960 the Latin American Free-Trade Association and the Central American Common Market were established.

The opportunity arose as soon as the relative boom in Latin American exports which had accompanied the hostilities in Korea came to an end. As has happened since, the years of prosperity enjoyed by the region's foreign trade had engendered a less alert attitude to internal development problems, and had relegated the inducements to integration to a secondary plane. The decline in the growth rate of exports which materialized in the years 1953 to 1955 afforded a propitious opportunity for taking the initial political steps towards integration. The first session of the Trade Committee, held in November 1956, marked the beginning of a phase of elucidation and negotiation, which, as already stated, culminated in 1960, after a series of meetings of various technical and political organs, convened, or at all event promoted, by CEPAL.¹

¹Two sessions of the Trade Committee (1956 and 1959), two sessions of the Working Group on the Latin American Regional Market and three meetings for consultations on trade policy (1958 and 1959), apart from the meetings concerned with Central America, the sessions of the Central Banks Working Group, and the rounds of government negotiations which led to the signing of the Montevideo Treaty and of the General Treaty on Central American Economic Integration.

Basically taking the existing documents as a guide, it is very difficult to identify *a posteriori* the original CEPAL theses on the patterns of integration formulas. But the arguments put forward unquestionably pointed to the need for integration. As they were repeated by the Commission on many occasions, they will not be restated in the present paper.² But CEPAL's positions with respect to the characteristics of the proposed formula, its objectives and instruments, gradually took more definite shape in the course of the negotiations, and it is logical to suppose that the resulting theses reflected, up to a point, the tenor of the discussions, taking up aspects of the national views expressed which were useful for building up a consensus among the governments. Nevertheless, from analysis of the relevant documents, especially those pertaining to the early phases of the negotiations, some theses emerge which we believe to represent CEPAL's original opinions, and which are summed up below, although they relate basically to the global formula known by the name of a Latin American regional market. With the advance of the negotiations and the restriction of their geographical scope, the final outcome was the present Latin American Free-Trade Association (ALALC). So this is a context very different from that of the Central American integration programme, in which CEPAL likewise fulfilled a decisive promotional function, postulating theses which may to some extent differ from those set forth here.

²In this connexion suffice it to recall one or two sentences from a CEPAL document aimed at motivating governments: "Latin America ... will be unable to carry out its development plans, will be unable even to regain the rate of growth it achieved in the ten post-war years, unless it makes a sustained effort to establish within its own territory the capital goods industries of which it is in such urgent need today, and which it will require on a large scale during the next quarter of a century" ... "In order to produce these capital goods and develop all the intermediate goods industries required ... Latin America needs a common market." See CEPAL, *The Latin American Common Market*, United Nations publication, Sales N.º: 59.II.G.4, México, D.F., July 1959, p. 1.

The present paper, although it does allude to these differences, is chiefly concerned with the positions emerging in connexion with the ALALC negotiations, since they are felt to have been of decisive importance in defining some of the parameters on the basis of which Latin American integration was subsequently to evolve. Any omissions fallen into here in respect of Central American integration tend to impoverish the content of the concepts, especially those of CEPAL, but help to focus attention on a process which was originally intended to have the characteristics of a general formula for the whole of Latin America, and which, in this sense, bears the brunt of the responsibility for what Latin American integration has been and has failed to become.

In the writer's opinion, the following were the most important of the CEPAL theses relating to the specific regional market formula.

1. *The need for realism and originality in the conception of the integration formula*

CEPAL repeatedly urged the desirability of advancing little by little, in accordance with the countries' differing situations, and stressed the advantages of flexibility in the instruments of integration. This attitude was evidenced in its opinions on the scope of the formulas to which it was advisable to resort. While maintaining the necessity of keeping the Latin American common market formula in sight as a final objective, CEPAL at the same time asserted that "It can be reached only by gradual stages. In the first of these, aspirations would have to be confined to partial but attainable targets; and would necessarily have to be the patiently-nurtured issue of a policy conceived on realistic lines and implemented with firmness of purpose"³ It also commented: "Hence ... the

desirability of adopting highly flexible procedures and establishing far-sighted escape clauses during this experimental phase".

It is important to recall that CEPAL gave its support to a formula for this first stage which was, in the last analysis, that of a preferential trade area, and declared itself in agreement with the targets recommended by the Working Group on the Latin American Regional Market which the secretariat convened to deal with those specific topics. The objectives in question were to secure within ten years an appreciable reduction in the average level of tariff duties —many of which were to be eliminated— and the abolition of all tariff restrictions by virtue of an appropriate credits and payments régime. More ambitious proposals, such as full liberalization of trade and the construction of a common external tariff, would have to wait at least until the end of this experimental phase.

The proposal that the average level of duties be reduced, put forward by the secretariat and taken up by the Working Group, had in CEPAL's view the advantage of flexibility; the levels could be different for different categories of products, and even within these categories, during the negotiations each country could make distinctions between products as suited it best. The procedure would also allow different levels of reductions to be established in accordance with the disparities between countries in respect of their stages of development.

2. *The regional market ought to cover the whole of Latin America*

One of the reasons why CEPAL recommended cautious progress was probably its insistence on the need for the formula to embrace the whole of Latin America. The preferential area should be set up with as

³See CEPAL, *The Latin American Common Market*, *op. cit.*, p. 5. As many references will be made to this work henceforward, all the quotations

taken from it will merely be followed by a number in brackets indicating the page on which the quotation appears.

many as possible of the countries of the region, and with a sufficient degree of openness to facilitate the incorporation of those that did not participate from the start. CEPAL was steadfastly opposed to any kind of restriction of access which would involve the risk that exclusive groupings might be formed. If this were to happen, it said, "the initial group of countries would tend to withdraw into its shell, and other non-members might attempt to form similar and equally exclusive groups. And instead of one huge Latin American common market there would be, after a time, a series of subregional clusters, with as little intercommunication as characterizes the Latin American economy at present". (16) The corollary of this insistence on breadth of scope is the advocacy of full application of the most-favoured-nation clause. In this line of thought, the ideal would be, according to some passages in CEPAL's studies, a Latin American clause with the smallest possible number of exceptions. What was envisaged was a Latin American preference to be negotiated without a liberalization programme determined in detail, which almost necessarily implied a product-by-product negotiation.

The exception to the unconditional application of the most-favoured-nation clause was Central America, at least for the time being, and the other reservations made were those relating to preferential treatment for the weaker countries and industrial complementarity agreements.

3. The formula had inevitably to include different treatments in accordance with the countries' situations⁴

CEPAL steadfastly affirmed the necessity of preferential treatment for countries in the initial stages of development, but later it accepted the idea of an intermediate cate-

gory of countries and even, with reservations, allowed that some distinction might be drawn in respect of those where the level of wages was high. It understood the risk of concentrating benefits in the more powerful or more wide-awake countries. To avoid this, two proposals were made: that the principle of reciprocity should be established, and that differential treatment should be granted in accordance with the stage of development the countries had reached.

Reference will be made later to the question of reciprocity. As regards differential treatment, CEPAL began by partly following the ideas in vogue and postulating as one of its instruments the application of different degrees of reduction or elimination of duties in the case of the less advanced countries, i.e., the possibility that these latter might maintain a higher level of protection. But it then went on to underline **the inadequacy of this kind of passive preferential treatment. In practice, the common market would mean that the less developed countries would have to incur losses deriving from diversion of trade. To compensate them, favourable treatment for their products would not be enough if it was also extended to other countries with better possibilities of reaping its benefits. The solution, according to CEPAL, lay in special concessions: "The reduction or elimination of duties accorded by a more advanced country to one in the initial stages of development would not be extended to all the other Latin American countries but only to those that were less developed. These latter would thus be able to benefit by the expanding market of the more advanced countries without interference from third parties". (19) These special concessions —i.e., non-reciprocal and exclusive to countries in the situation referred to—, which**

in their relative situations consequent upon the varying stages of development referred to necessitate differential treatment if such equality of opportunity in respect of the common market is to be ensured so far as possible." (5)

⁴"The common market should offer each and all of the Latin American countries equal opportunities of expediting their economic growth. But the disparities

would be the pivot of the preferential system, undoubtedly constituted an innovation in the economic integration theories then prevailing.

4. *The price mechanism as the basis of the operation of the common market*

This is the aspect of the question in which it is hardest to discern which were CEPAL's original positions, and how far they were modified by the progress of negotiations which from the very start showed a bias towards the so-called principle of 'free competition'. CEPAL's theses on differential treatment according to the situations of the various countries, and its views on reciprocity from the standpoint of setting limits to a possible concentration of benefits, suggest that if it accepted the principle of 'free competition' it did so only on condition that this principle were complemented by corrective mechanisms —i.e., by some kind of regulation—, attributing great importance to the establishment of such mechanisms as might help to ensure a measure of equivalence, both quantitative and qualitative (type of goods), in trade flows. In this connexion it said: "If a country imported from other Latin American countries goods which it had formerly received from the rest of the world, whether it had or had not a deficit in its aggregate balance of payments, its ability to finance imports with additional exports would be a decisive factor in the smooth operation of the common market". (21) Not just any exports whatever would do: "It is also essential ... that the country thus receiving imports of manufactured goods should be able to cover them with its own exports of industrial products as well as of primary commodities". (21) As a system to promote reciprocity CEPAL proposed that reduction of duties should be stepped up in the case of countries with a balance-of-payments surplus and slowed down in that of countries with a deficit, in addition to which the necessary technical and financial assistance should be provided; but it also uttered

a warning that some mechanism, presumably automatic in character, would also be necessary to guarantee that reciprocity was really respected in the operation of the market.⁵ It did not propose formulas for this mechanism, but on several occasions insisted on the need for it, unfortunately in vain.

As can be seen, although CEPAL embraced, in this context, the 'free competition' theses, it did so with fundamental reservations. Nevertheless, it was more explicit in another allied respect, that of the system of allocation of resources, no doubt keeping in line with the course of the negotiations: "The specific solution arrived at after careful analysis is based on the following fundamental concept: it would be incumbent upon member governments to create conditions conducive to the efficacious action of private enterprise within the common market ... but it would be private enterprise that in the final issue would decide which industries were to be established, in which countries they were to be installed, and what degree of specialization was to be attained". (22) These words involve full acceptance of the function of the market mechanism in the allocation of resources, although with prices conditioned by preferential treatment and reciprocity; they also have a secondary implication, namely, recognition of the function of private enterprise in the operation of the mechanism in question. In its breadth of scope, the main thesis contrasts with the position adopted by CEPAL in Central America, where from the outset it advocated deliberate distribution of certain industries: strictly speaking, a sort of programming. The real conditions were different, of course, and in ALALC's case there was also the factor represented by negotiations to which the larger countries, and some of the others as well, brought the inflexible premise of 'free

⁵"The pledge of reciprocity alone would perhaps not suffice to convince each and every country that the risk of damage to its interests would be minimal in comparison to the magnitude of the benefits accruing from the common market". (22)

competition', a position that left no room for the presentation of alternatives.

5. *The major instrument for the creation of integration industry consisted in complementarity arrangements or agreements*

Complementarity arrangements or agreements are one of the two important exceptions to the most-favoured-nation clause recognized by CEPAL, the other being preferential treatment. Their objective was the development of new integrated industries or the rationalization of the most important existing activities. The instrument envisaged took the form of sharper reductions of duties and charges than were necessary to reach the average levels in the preferential area.

CEPAL, while noting the risk attaching to such arrangements — "were agreements of this kind to become very common, they might give rise to exclusive groups which in the last analysis would hinder the formation of the common market" — also drew attention to their great advantages: this "is an exception calculated to promote, rather than to militate against, the final objectives of the common market".(20) To avoid the risks, it suggested, taking up the recommendations made by the Working Group, that prior approval by the Committee on Trade Policy and Payments would be required, and that a definite time-limit might be imposed for such agreements. CEPAL viewed these specialization and complementarity agreements as one of the most efficacious instruments for the development of an integrated industry, and this is the basic justification for the exception to the most-favoured-nation clause — an exception which, as several observers noted, undoubtedly ran counter to the ideas on integration then in vogue. Subsequently, mention was made of these reservations, in particular by the representatives of the General Agreement on Tariffs and Trade (GATT) and the United States Government.

In the present writer's opinion, the theses described were the most important of those propounded by CEPAL on the subject of integration, but from them derive some other operational characteristics which CEPAL also postulated:

(a) the proposals for a liberalization mechanism based on reduction of duties to average levels, under which each country could distribute the reductions as suited it best, culminated in a system of detailed product-by-product negotiations, which seemed appropriate because of its greater flexibility;

(b) the efficacy of the instruments for safeguarding equity (preferential treatment, in particular the special concessions, and the provisions relating to reciprocity) depended upon the goodwill of the parties, and not upon rules laid down when the market was established and operating to some extent independently of the will of the parties affected, despite CEPAL's aforementioned insistence on the necessity for mechanisms that would ensure reciprocity, presumably more or less automatically;

(c) from the theses on the function of the market mechanism, private enterprise and competition (even if restricted), logically stemmed those relating to the integration organ, which, in such conditions, did not need to be invested with any functions but those of servicing the negotiations and performing a few other administrative and regulatory tasks. Where regulation was concerned, however, CEPAL attributed to this organ much more importance than it was accorded by some of the governments, which were anxious from the outset to reduce its responsibilities to the minimum. A propos of the many problems that might arise in the course of the negotiations, CEPAL asserted: "These problems could be gradually settled only at government level. Hence the supreme importance both of the Committee on Trade Policy and Payments, as the agency for these negotiations, and of the technical assistance which it would need in carrying out its functions".(15)

II

Evolution of ideas during the ALALC negotiations

The intergovernmental negotiations which led to the establishment of ALALC substantially modified some of the conceptions which, as has been shown, were CEPAL's theses when it began to promote Latin American integration. It is of interest to trace the evolution of these concepts, because it accounts for the form finally taken by the so-called Latin American regional market.

On the basis of the documents pertaining to the formal meeting,⁶ the negotiations can be divided into two phases whose characteristics are pretty clearly defined. The process of negotiation really began with the first meeting of the Working Group on the Latin American Regional Market (1958). The first session of CEPAL's Trade Committee (1956) mainly served the purpose of promoting the integration theses at the political level, whereas the convening of the Working Group made it possible to embark upon analysis of the elements of the formula, and *de facto* opened the negotiations, despite the fact that its members were participating in their personal capacity. Generally speaking, at its two sessions the Working Group followed up the theses attributed to CEPAL in the preceding section. Actually in some cases there was undoubtedly interaction between the CEPAL secretariat's thinking and that of the Working Group, so that it would really be arbitrary to define sources. In any event, at the Group's two sessions the deliberations were based on the above-mentioned conceptions, and, in certain respects only, at the second session, held early in 1959, the Working Group displayed a tendency, especially on the part of some of the larger countries, to bring the characteristics of the formula closer to more exigent integration patterns, in line with the definition of the

exceptions approved in article 24 of the General Agreement on Tariffs and Trade (GATT). Shortly afterwards this tendency was fully revealed at the meetings for consultations on trade policy held in April 1958, in which experts from the southern countries (Argentina, Brazil, Chile and Uruguay) took part in a personal capacity, and at which a 'draft agreement on a free-trade area' was drawn up. This draft definitely departed from the gradual, flexible and across-the-board approach which had prevailed in the Working Group, and prescribed a more exacting formula, which adhered more closely to the orthodox tenets of classical integration theory. Although at the second session of the Trade Committee (November 1959) the doubts and apprehensions awakened by this formula were expressed, no reversion to the earlier conception took place, and it was the model sketched out in the draft that was presented, somewhat flexibilized, at the meeting for negotiation at the governmental level which were to culminate in the treaty establishing a free-trade area and setting up the Latin American Free-Trade Association (Montevideo Treaty, 18 February 1960).

Thus the aforesaid consultations on trade policy marked a decisive change of course in relation to the conceptions by which Latin American integration had originally been inspired.

This brief review of the significant moments in the evolution of ideas on integration will be followed by an analysis of the changes these ideas underwent, in the same order as in the preceding section.

1. *More exigent objectives in the integration formula*

It has already been noted that CEPAL's initial thesis went no farther than the

⁶See footnote 1.

construction of a preferential area. In the course of the deliberations, however, the objective became more ambitious, until it finally took shape in the decision to 'establish a free-trade area' recorded in article 1 of the Montevideo Treaty.

This was the most striking change introduced at the aforesaid consultative meetings on trade policy. In this connexion, there is a marked difference between the text of the draft agreement prepared during the consultations, and the bases drawn up by the Working Group. Article 1 of the draft agreement stated: "The Contracting Parties hereby establish a free-trade area which shall be fully operational within a period not longer than ten years from the date on which the agreement enters into force". On the other hand, among the objectives mentioned in the text prepared at the second session of the Working Group, specific allusion was made to "the establishment of a preferential system for trade between Latin American countries".(33)

Clearly, therefore, it was only during the later periods of negotiation, in face of the virtual *fait accompli* represented by the agreement among the southern countries, that predominance was gained by the free-trade area proposition, which was finally incorporated in the Montevideo Treaty.

This change was much influenced both by the normative system of GATT and by the position of the United States, which did not fail to drop opportune reminders of the advisability of not departing from that system. The résumé of the statement made by the consultant Edmundo Barbosa da Silva, which appears as annex I to the summary record of the Consultations on Trade Policy between the CEPAL secretariat and experts from countries in the southern zone of South America,⁷ records in meticulous detail the analysis of the desir-

ability of adopting the free-trade area formula in order to facilitate its acceptance by GATT, under the General Agreement on Tariffs and Trade, article 24, paragraphs 7 to 10. At the second session of the Trade Committee, the representative of GATT, after stating that he was glad to see "that the views of the Latin American countries were very close to those held by GATT", remarked that "in establishing preferential systems, it was necessary to ensure that the interests of third countries were not harmed and that such systems were only applied at an initial stage, *since the final aim should always be a competitive market without restrictions*". (123)⁸

The Government of the United States was still more explicit. At that same meeting the United States representative drew attention to what was, "in his view, the unsatisfactory nature of the scheme prepared by the Working Group. The creation of an undetermined level of preference without a concrete undertaking to proceed with the formation of the free-trade area was likely to produce a high degree of uncertainty". (113). Even earlier, in 1958, this unfavourable opinion had been conveyed by the United States Embassy in Rio de Janeiro in yet more drastic terms. "The United States would gladly see the establishment in Latin America of customs unions or free-trade areas which satisfy criteria in article XXIV of the General Agreement on Tariffs and Trade".⁹

This shift towards a more exacting objective, i.e., a free-trade area instead of a preferential area, was unquestionably the essential change in the concepts relating to the regional liberalization programme, and,

annex I, quoted in *The Latin American Common Market, op. cit.*, pp. 100-101.

⁸The italics are the present author's.

⁹"Comments regarding the attitude of the United States towards Latin American common market arrangements", reproduced in *The Latin American Common Market, op. cit.*, p. 101.

⁷Summary record of the Consultations on Trade Policy between the secretariat of the Commission and countries in the southern zone of South America,

as we shall see later, largely accounts for what has happened to ALALC.

The other characteristics of the liberalization programme were defined in detail in the course of the deliberations, but in essence CEPAL's original ideas were maintained. The programme was to be universal in its scope and gradual and progressive in its application. The distinction between a first phase with a liberalization programme predetermined within specific limits, and a second phase covering the final construction of a formula for a higher degree of integration, either a customs union or a common market, disappeared in the Montevideo Treaty, which contains only a courtesy reference to the subject in article 54: "The Contracting Parties shall make every effort to direct their policies with a view to creating conditions favourable to the establishment of a Latin American common market".

The first—and in the end the only—phase of the liberalization programme was extended from the ten years envisaged in all previous documents to twelve in the Montevideo Treaty. Furthermore, the sub-stages through which liberalization had to pass, as well as the distinction between categories of goods and the corresponding differences in the reduction of duties that appear in the bases prepared by the Working Group at its Mexico session, are superseded in the Draft Agreement on a Free-Trade Area resulting from the Consultations on Trade Policy by what is apparently a more flexible system, and such concepts are formally introduced as 'substantially all trade', the 'weighted average' and the 'basic schedule', which in the Montevideo Treaty was to be called the 'Common Schedule'. The programme and basic concepts of this draft were transferred almost unchanged to the Montevideo Treaty, which thus incorporated the GATT idea of exceptions in relation to the free-trade area.

Certain changes, of form rather than of substance, were also effected in the exceptions to the application of the most-favoured-

nation clause and in the scope of the escape clauses. Generally speaking, if the ideas of CEPAL and of the Working Group are taken as a starting-point, the predominant tendency was to restrict the scope both of the exceptions to the most-favoured-nation treatment and of the escape clauses themselves. The bases established by the Working Group acknowledged four exceptions: (a) preferential treatment for countries in the initial stages of development; (b) complementarity agreements; (c) existing preferential concessions whose elimination would have to be gradual; and (d) Central American countries.

In the Montevideo Treaty three types of exceptions to the most-favoured-nation clause are accepted: frontier trade (article 19), complementarity agreements (article 17) and measures in favour of less developed countries (chapter VIII). With the elimination of the exception for the Central American integration movement the seal was set on the restrictive character of the regional market, the first symptoms of which were observable in the southern countries' draft agreement on a free-trade area.

As regards the existence of escape clauses, the original ideas were maintained in general, although they underwent modification, especially with respect to application procedures, for which in the end more extensive faculties were accorded to the administrative organ: the Standing Executive Committee.

If any general conclusion can be drawn from these conceptual trends as to the scope and characteristics of the liberalization programme, or, in other words, of the opening-up of markets in the area, it is that during these negotiations the objectives became more ambitious and exigent, and that the system tended to square more exactly with a formal model mainly determined by the exceptions approved in article 24 of GATT. The system gained in operational precision, but lost in breadth and flexibility. As will shortly be seen, from the time of the Consultations on Trade Policy

the idea of a great Latin American regional market was relegated to a secondary plane, and the formula offered no concrete possibilities for its construction. These consultations and the aforesaid influence of the orthodox tenets of GATT are undoubtedly the two determinants of the evolution described.

2. *Reduction of the geographical scope of the formula*

In the foregoing section mention was made of the evolution of the formula towards a more restricted country coverage than had been originally advocated by CEPAL. This seems to have been the result not so much of any intention to limit its scope as of the formal requirements of the free-trade area which, in the end, was the model chosen. Influence was also exerted by the haste or urgency with which some countries approached the negotiations, especially the countries in the southern zone, which were, moreover, very reluctant to recognize subregional agreements, and little disposed to welcome preferential treatment or any other kinds of exceptions to the most-favoured-nation clause.

The CEPAL theses relating to the geographical scope of the formula found support at the first session of the Working Group, but at the second a more rigid attitude made its appearance.

In Basis VII for the Latin American Regional Market, established at the session in question, the Group still maintained that "the common market must include all the Latin American countries or the greatest possible number of them", but it immediately acknowledged the possibility that a first the common market might have to be launched by "an initial group of countries". (41) More explicitly, in the "Comments on the recommendations", the Group identified that possible initial nucleus: "The fact that the trade of seven countries in the southern area makes up about 90% of the total trade among Latin American countries

(petroleum excluded) readily suggests that these countries might act as the initial nucleus of the common market". (48) This particularizing tendency runs parallel to a less flexible attitude towards possible subregional groupings. In this latter connexion, the Working Group followed the lines laid down by CEPAL, which, as has been shown, regarded as inadvisable any attempt at subregionalization, with the sole exception of the Central American integration programme. The group considered "that the formation of other types of groupings of countries, through exclusive arrangements, could be an obstacle to the creation of a Latin American common market". (48)

As in other respects, the Draft Agreement on a Free-Trade Area negotiated by the four southern countries mentioned above constituted a definite divergence from the original propositions regarding general applicability. Although under the provisions of article 40 the Agreement was "open to access by all Latin American countries" (105), in actual fact it represented a manifestation of an interest in association confined to part of the continent. There were, of course, reasons why the group of countries concerned wanted to forge the bond of integration as quickly as possible; the chief of these was the dissolution of bilateral trade arrangements, by which they had been especially affected. But apart from that urgent motive, underlying this geographical restriction there was also a sense of the importance of that 'initial nucleus' in which at the time a major part of Latin America's trade was concentrated.

Similarly, it is in this Draft Agreement that a certain inflexibility towards possible subregional groupings is most clearly in evidence, reflecting a greater reluctance to consider any exceptions to the most-favoured-nation clause — a position which during the second session of the Trade Committee was still further consolidated, perhaps precisely because of the reaction provoked by the four southern countries' initiative. Criticisms of it, in fact, were combined with

expressions of opposition to partial customs arrangements on the part of several countries, including particularly Venezuela and Cuba.

Thenceforward, in the negotiations of which the final outcome was the Montevideo Treaty, the objective of across-the-board integration for the whole of Latin America made no further appearance, except in the guise of a ritual enunciation. It was not until 1967 that references were once again found, in the Declaration of the American Chiefs of State, to the Latin American scope of integration and the possibility that programmes might converge. The fact is that when the Montevideo Treaty was signed, the so-called 'generality' existed only as sheer formulism, and in practice all flexibility for the accomodation of subregional movements, including the Central American integration programme itself, had been lost. Even though article 58 of the Montevideo Treaty declared it "open to accession by the other Latin American States", it was obvious that accession was becoming increasingly difficult for the countries of smaller size and farther removed from the southern zone of South America, which were those principally remaining outside the free-trade area.

3. Restriction of the content of the preferential system and the key function of the special concessions

The CEPAL theses on differential treatment in accordance with the countries' situations emerged from the negotiations with changes that limited their scope, but left intact their essential instrument: the special concessions. It is worth while briefly to trace the evolution of ideas in this connexion, as a means of assessing the opposition aroused by these conceptions from the very start, and the actual limitations of the formula adopted.

The Working Group, at its two sessions, developed on broad lines the existing ideas on a preferential system. During the second session, the Group worked out this system in great detail, using, as CEPAL had done,

three categories of goods and of countries. There is no need to describe the bases prepared by the Group in this connexion, for they faithfully reflect CEPAL's thinking. Suffice it to point out that in these bases the instruments of preferential treatment are already clearly defined: higher average levels of protection for those categories of products in which development is incipient, and non-extensive special concessions, (42) which are introduced into the formula as exceptions to the most-favoured-nation clause, and afterwards constituted the basic instrument of the preferential system embodied in the Montevideo Treaty.

The subsequent discussions at the political level, however, show how controversial the topic continued to be and how superficial was the grasp of the problem even in the interested countries themselves: those of incipient development or, in general, the weaker countries. Surprisingly, in the light of our present appraisal of the integration phenomenon, the southern countries' Draft Agreement on a Free-Trade Area included no preferential system. It should be recalled that among the possible signatories of this draft were Chile and Uruguay, together with Brazil and Argentina, and that the first two were later to request preferential status within ALALC.

It is not to be wondered at, therefore, that some of the elements of the system envisaged by CEPAL were not incorporated in the Montevideo Treaty. Thus, no advantages were accorded to the middle category of countries—those whose markets were insufficient—nor was a preference included which took the form of greater protection for those categories of products in which development was incipient in the beneficiary country. In reality, the Treaty established no distinctions between goods, and therefore left the level of protection entirely to the mercy of negotiations between the parties.

Nevertheless, as was stated earlier, the most important instrument of the CEPAL propositions stood its ground: namely, the special concessions, which became virtually

the only preferences adopted in the Montevideo Treaty. Although article 32 also empowered the Contracting Parties to accord the relatively less developed countries a higher level of protection, as well as other advantages, in practice the system was centred on the special concessions, partly because the very stagnation of the liberalization programme detracted from the effectiveness of the passive preferences based on the existence of differing rates of reduction of duties in different countries.

In view of the spirit in which the participants signed the Treaty, however, it is significant that the distinction originally established by CEPAL between categories of products should have been eliminated, because it would have been the factual and predetermined element (not dependent upon product-by-product negotiations) in the application of these passive preferences. The distinction between products disappeared when the formula changed its objective from a preferential area to a free-trade area. For the reasons given, the fact was of no great practical importance, but it reveals an unwillingness to acknowledge differences between countries, which was most clearly evidenced in the suppression of the middle category referred to above.

The instrument that finally remained—the special concessions—was the element that CEPAL considered essential if integration was to function equitably. It also constituted the authentic innovation in ideas on differential treatment. Despite the mutilations suffered by the system that CEPAL had proposed, its essence was respected, so that any criticisms that may be levelled at the validity of the preferential system established in the Montevideo Treaty are also fundamentally applicable to CEPAL's ideas on the subject, and, therefore, to the predominant conceptions, to the so-called 'state of the arts', with respect to integration. When this topic is reverted to later on, a reminder will be given of some of the characteristics of the outlook in question, which was also reflected in CEPAL's opinion on negotia-

tions in a framework of free competition, and the acceptance of qualitative differences—among others—between the industrial specialization of the countries of incipient development and that of the more advanced countries.

4. Subjection of the opening-up of markets to the principle of free competition, and the function of the price mechanism

The period in which the theses on Latin American integration were gradually maturing coincided with region-wide criticisms of the efficacy of the market mechanism in face of economic development requirements, and with efforts on the part of almost all governments to set national planning systems in motion. Yet the negotiations on economic integration were conducted with the most scrupulous respect for the liberal theses on the virtues of the 'invisible hand' of the market, free competition and the role of private enterprise in economic integration.

One of the reasons for this ambivalence was undoubtedly the vigour with which the larger Latin American countries advocated such theses as basic principles of the integration in which they were interested; from the outset these tenets were propounded as if they were authentic political conditions for initiating negotiations that would have any prospects of materializing. Moreover, the existing theoretical models for economic integration—of which the Treaty of Rome seemed to be the most important application—were all based on liberalization processes which were founded on those same principles. Whether to serve national interests or from genuine conviction, the fact of the matter is that in all documents prior to the Montevideo Treaty the propositions in question are repeatedly stated as guiding principles for the so-called Latin American regional market. The only corrective of 'free' competition allowed was the preferential system for the relatively less developed countries, since CEPAL's ideas of imposing limitations on the price system to ensure

reciprocity met with no response among the negotiating parties.

As from the time of the earliest document prepared with the participation of national experts, i.e., the report of the first session of the Working Group, respect for the market mechanism and the function of private enterprise are brought into prominence as basic principles. The most categorical declaration on this point is to be found in Base V: "The specialization in industries and other activities which is one of the objectives of the regional market must be the outcome of the free interplay of economic forces..." "It is inconsistent with this principle to accord specific countries the exclusive right to install certain industries or activities, or to impose restrictions on free competition, except as regards the special features of the integration programme of the Central American countries, which in this context must be considered as a single unit..." (31) This really implied a veto not only on any kind of programming of activities in the new area but even on any negotiation explicitly concerned with the allocation of industries, such as was then already being discussed by the Central American countries, and CEPAL itself, in relation to the so-called integration industries.

Some of the comments on the thesis stated above clarify its meaning still further: specialization "should come about as the result of the free interplay of interests, which is not incompatible with effective guidance through financial agencies. But in no case should it lead to exclusive arrangements which prevent competition or the entry of new enterprises". (33) Guidance was considered allowable through financing, but on no account through instruments that would intervene in the opening-up of markets, i.e., those proper to the integration process.

The logical corollary of this attitude is the conception of the central—theoretically indeed unique, to judge from the terms employed—position of private enterprise in economic integration. The report of the Working Group itself, in explaining the

criterion adopted for the purposes of complying with the mandate to draft the bases for the regional market, declares: "In formulating them, the Group has been guided first and foremost by the idea that such bases will be effective only in so far as they offer ample opportunities to private enterprise and its achievements. The governments will plan the structure of the regional market, but it will be for private enterprise to give it life..." (30) As in the case of the emphasis laid on respect for the market mechanism, this apology for the function of private enterprise is probably dictated less by ideological motivations than by the interests of the countries whose private enterprise is more powerful and dynamic.

Both the report of the second session of the Working Group and the southern countries' Draft Agreement on the Free-Trade Area omitted all reference to these principles, although they structured in some detail an integration system entirely based on them. The topic is dealt with explicitly only in one of the annexes to the report of the Consultations on Trade Policy, which contains a memorandum from the United States Embassy in Rio de Janeiro; it declares that the support of the United States for preferential arrangements would depend upon whether they "would promote the efficient allocation of resources on a competitive basis..." (102) Well-known, moreover, is the steadfast opposition of the United States Government to the system of integration industries in the Central American Common Market, on the grounds that exclusive arrangements were thus established which interfered with free competition.¹⁰ Undoubtedly, during this phase of the negotiations the official statements of the United States Government were invoked as powerful arguments in favour of the foregoing theses, and, as was remarked above, in support of the free-trade area formula.

¹⁰Constantine V. Vaitsos, *Crisis in regional economic co-operation (integration) among developing countries*, in typescript, p. 25 et seq.

With the progress of the negotiations that culminated in the Montevideo Treaty, the principle of competitiveness and the importance of private enterprise gradually became virtually undisputed postulates, acceptance of which was taken for granted.

Thus, in all the documents that reproduce the results of the deliberations and, sometimes, the positions of governments or national experts, only on one occasion is a definite reservation expressed with respect to the virtues of the market mechanism and, in general, the desirability of the above-mentioned principles. It appears in the report of the second session of the Trade Committee, and forms part of a declaration made by the representative of Bolivia in relation to resolution 6 (II), to the effect "that the basic requisite for an effective common market was equality among member countries, so that equilibrium among their economies could be created and maintained. Free trade tended to aggravate the disparity between the more and less privileged countries", since "the latter found themselves compelled to offer their goods at abnormally low prices". (134)

The other original characteristics of the formula underwent no substantial change in the course of the negotiations. The concept of complementarity agreements or arrangements as a basic instrument of integration industry was maintained. As already pointed out, the Working Group approved this exception to the most-favoured-nation clause, formally limiting its duration and establishing the need for prior authorization by the Committee on Trade Policy and Payments. The southern countries' Draft Agreement on a Free-Trade Area, in article 15, sanctioned such arrangements, even in cases where they associated a Contracting Party with third countries in Latin America, always provided that they were negotiated through the Committee. (103) Articles 16 and 17 of the Montevideo Treaty reproduced the essence of the original ideas on the subject, declared that the agreements were open to the accession of the Contracting

Parties, and established *a posteriori* authorization via the expedient of a decision that they were consistent with the principles and purposes of the Treaty. Neither in this Treaty nor in the Draft Agreement are deadlines set, since they became needless when the objective was changed from a preferential area to a free-trade area.¹¹

In the last analysis, the exception retained all its importance. Theoretically the possibility was open to all, and especially to the relatively less developed countries, which, in accordance with subsequent reforms, could take advantage of the agreements without negotiating their accession. In practice, such arrangements were made in respect of fairly large-scale industries in which decisive importance attached to the bargaining capacity of the bigger countries at more advanced stages of industrial development. Their existence, in a setting in which competition was a basic principle, combined with the above-mentioned limitations imposed on preferential treatment, heavily weighted the scales in favour of those more powerful countries.

As regards the functional characteristics of the market—largely a corollary of the theses which finally prevailed in the formula, especially those relating to the principle of "competition" as the supreme operational norm—the negotiations tended to repudiate automatic mechanisms and as far as possible to prevent regulatory action on the part of the integration organs. Specifically, in order to preclude anything resembling communal influence in the basic integration decisions, the successive texts in which the results of the negotiations were embodied said nothing of what the CEPAL secretariat had asked for as a means of ensuring that reciprocity really worked in practice. In the same spirit, the system for opening up the market was also retained intact, and in view

¹¹Except for the very remote possibility that products covered by such agreements might be excluded from the corresponding schedules under the liberalization programme.

of the characteristics of the formula, took the shape of product-by-product negotiations.

In both cases, the absence of commitments allowing a measure of automatism left the entire functioning of the integration process, down to its smallest details, dependent upon government decisions and, therefore, upon a continuous quest for a consensus which presupposed a permanent spirit of goodwill in the Contracting Parties. Furthermore, the possibility of communal action accorded to the integration organs, both those of a governmental character and, in particular, the CEPAL secretariat, was slight or non-existent. This attitude is clearly reflected in the wording of the Working Group's comments, at its second session, on the subject of "Measures to remedy balance-of-payments disequilibrium". With reference to the position of a country with a surplus, it said: "In that event, the Committee *should advise* it to adopt further liberalization measures so that, through the resultant increase in its imports, it can help the debtor countries in their development".(50)¹² It was obvious that in this and other matters the predominant aim at least was to avoid as far as possible rules involving a principle of automatism — a position which was fully maintained in the Montevideo Treaty.

The passages relating to the integration organs are equally revealing. In a comment on Basis XI, formulated at the first session of the Working Group and entitled "The advisory body", the Group textually states that it "does not consider that the Latin American countries are yet ready to establish at the outset an executive authority for the regional market, although this might constitute an objective for the future. Accordingly, it would prefer an organization of an advisory type..." (34) The function of this advisory

body in controversial cases is then clarified, although even in such circumstances its opinion would be sought only as a first step "so that the country which considers itself prejudiced by measures taken by other countries may apply for a ruling". (34)¹³

This version of the characteristics of the highest integration organ was so colourless that the Working Group itself, at its second session, had to go farther. Basis XI stipulates: "For the purpose of administering the agreement and facilitating the attainment of its ends, a Committee on Trade Policy and Payments composed of representatives of all the member countries will be set up to carry out the negotiations arising from the agreement". (42) Thus the Committee was given the character of an administrative organ and a forum for negotiations, although its action was still kept within as narrow bounds as possible.

The forms of organization which were finally established in the Montevideo Treaty were not without a precedent in the southern countries' Draft Agreement on a Free-Trade Area. This draft included provisions relating both to the Committee, which was to be a permanent body, and to an executive secretariat; in its article 28 it specified the functions of the Committee, which corresponded in essence to those of a forum for negotiations and an administrative organ. There were no signs of a regulatory, much less a planning, function, and the projected executive secretariat lacked any possibility of acting on its own initiative, although the Committee was allowed a certain amount of latitude as regards adopting decisions on some matters,¹⁴ which was maintained, although in an attenuated form, in the Montevideo Treaty.

¹³The italics are the present author's.

¹⁴For example, the possibility of temporarily exempting less developed countries from obligations in respect of reciprocity.

¹²The italics are the present author's.

III

Integration movements in the developing world and their principal problems

Apart from the intrinsic importance of these efforts as an example of Latin American co-operation in whose gestation CEPAL's influence played a decisive part, analysis of the evolution of those ideas which finally took concrete shape in ALALC is of interest as an aid in understanding the characteristics of the integration patterns that saw the light in the developing world during the 1960s.

Chronologically, ALALC, set up in February 1960, was the first integration formula devised by developing countries. The East African Community dates back even earlier, following on from colonial times, but only in June 1967 did an agreement emerge which emanated entirely from motivations on the part of self-governing countries. The chronological precedence of ALALC does not mean that it influenced the characteristics of the other integration movement either in the American continent or in Asia and Africa, but it does indicate the tendencies then prevailing. Its features constituted the first manifestation in the developing world of a conception of economic integration which had stemmed not only from the specific example of the Treaty of Rome and from the GATT regulations, but also from the views predominant in international economic theory and, more specifically, in what was known as customs-union theory.

For reasons linked more to negotiation proceedings than to concepts, ALALC was also a sort of extremely simplified model of integration based on competition. But some of its central characteristics tended to be reproduced in the other programmes; only in 1969, with the creation of the Andean Group, was there a definite split in basic principles. These affinities between the conceptual origins of integration formulas are, accordingly, very useful for the purposes of a

critical appraisal of the objectives and instruments chosen, since such a critique would not be grounded on ALALC's experience alone, but on everything that has been done in this connexion in the developing world since 1960, with the consequent considerable enrichment of the field of observation.

In the light of these considerations, the present paper will contain no description of what has happened in each of the Latin American integration movements,¹⁵ but an attempt will be made at a generalized statement of the principal problems they have encountered, with the intention of examining the causes of these difficulties and acquiring a better knowledge of the elements that influence the viability of integration. Only then, in the writer's opinion, will it be possible to arrive at a critical view of those conceptions, whose manifestations in ALALC have been enumerated in sections I and II of the present article.

A list is given below of the integration groupings in the developing world which have been studied for the above-mentioned purposes, in the chronological order of their establishment and with a note of the acronym by which they are most commonly known. The list comprises only those organizations whose objectives include integration of markets in any of its forms.

¹⁵The author gives such a description in an article on viable integration and the problems of economic integration in the developing world which will shortly be published by the United Nations in its *Journal of Development Planning*. For a more detailed analysis, see Havelock Brewster, *Current Problems of Economic Integration: Agricultural and Industrial Co-operation among Developing Countries*, United Nations publication, Sales N.º 72.II.D.6; Peter Robson, *Economic Integration in Africa*, London, George Allen and Unwin Ltd., 1968; Arthur Hazlewood, *Economic Integration: The East African Experience*, London (also Nairobi, Ibadan, Lusaka), Heinemann, 1975.

Latin American Free-Trade Association (ALALC)	February 1960	tee in Africa, the Association of South-East Asian Nations (ASEAN) in Asia, and the Regional Co-operation for Development Organization formed by Iran, Pakistan and Turkey. Nor do any appear in the list which although they had intended to set up such mechanisms were unable to put them into effect, as is the case with the African and Malagasy Common Organization (OCAM) or the West African Economic Community (CEAO). ¹⁶
Central American Common Market (MCCA), with its immediate antecedents in the Multilateral Treaty signed in 1958	December 1960	
Arab Economic Unity Council (CAEU), within which four States have acceded to the Arab Common Market in force since 1971	April 1964	
Central African Customs and Economic Union (UDEAC), with a new Treaty signed in 1974 and in force since 1975	January 1966	
East African Community (EAC), whose antecedents date back to 1917, with the establishment of a customs union between Kenya and Uganda	June 1967	
Caribbean Free-Trade Association (CARIFTA), which became the Caribbean Community (CARICOM) in 1973	May 1968	
East Caribbean Common Market (MCCO), a subregional grouping within CARICOM	June 1968	
Andean Group (subregional grouping within the Latin American Free-Trade Association)	May 1969	
Economic Community of West African States (ECOWAS)	May 1975	

As already noted, the list does not include those groupings of States whose constitutive treaties do not establish economic integration mechanisms, such as the Council of the Entente States and the Maghreb Permanent Consultative Commit-

tee in Africa, the Association of South-East Asian Nations (ASEAN) in Asia, and the Regional Co-operation for Development Organization formed by Iran, Pakistan and Turkey. Nor do any appear in the list which although they had intended to set up such mechanisms were unable to put them into effect, as is the case with the African and Malagasy Common Organization (OCAM) or the West African Economic Community (CEAO).¹⁶

Without going into details, it may be asserted that today the situation of the great majority of such integration movements is discouraging. Only two of them are operating with political vitality and in conformity with their constitutive provisions. These are the Andean Group and the Economic Community of West African States (ECOWAS). Of these, ECOWAS established its secretariat less than two years ago, and the first commitment relating to the opening-up of the market (the tariff *statu quo* clause) was to be brought into application in January 1978; the movement has begun with resoluteness and political will, but it is in an initial phase which precludes comparison of its development with that of other programmes. The Andean Group set up its secretariat in 1970, and its principal mechanisms, including the opening-up of markets, are in operation, despite sporadic failures to comply with requirements; it has not been free from crises, however, among them that which culminated with the withdrawal of one of the members of the Group, namely, Chile. This conflict, in addition to negotiation difficulties, kept it virtually in a state of stagnation from 1975 to September 1977, in which year it managed to struggle out of the morass, thereby becoming the only integration programme among developing countries with a few years of existence behind it which has maintained its dynamism; a situation that certainly gives food for serious thought.

¹⁶See the annex for the list of countries members of the groupings mentioned, with some basic data on population and product.

Of the rest, the East African Community, the oldest of the integration movements if one looks back to its antecedents in colonial times, is on the point of dissolution, following the collapse of its common services in 1977 and the closing of the frontiers between some of its member countries. The Caribbean Community seems to be sunk in a profound crisis which may endanger its very existence, as well as the future of the East Caribbean Common Market. The Latin American Free-Trade Association and the Central American Common Market are at a standstill, and their legal instruments need a thorough overhauling which has been deferred up to now. The Central African Customs and Economic Union (UDEAC) is still formally extant, but limitations on the opening-up of markets and instances of non-compliance with its provisions have detracted from its vitality as an integration system. And, lastly, the Arab Economic Unity Council may be considered an association of States for economic co-operation, but not an authentic market integration movement. In practice, most of the provisions agreed upon are not complied with, and the Arab Common Market is in its initial phase, without much prospect of materializing. Despite the obvious potentialities of this movement as regards the execution of multinational projects of interest to two or more member States, hitherto integration objectives have not been viable.

In short, with the exception of the Andean Group and the nascent ECOWAS, all the other integration groupings in the developing world today are in a state of stagnation and conflict—which in this case is almost invariably tantamount to regression—or have deviated from their objectives and can no longer be viewed as integration programmes. One of them, as already pointed out, has entirely ceased to function and is running the risk of final disruption, which is all the more regrettable inasmuch as it was one of the oldest and the most effectively articulated. Such a balance-sheet is bound to be a motive of concern for all those who have

the development of the Third World at heart. The attention of specialists in the subject has long been engaged by the theory of economic integration and the analysis of its possible effects. Integration instruments have been the object of meticulous examination and pertinent recommendations abound in the literature of the speciality. The real-life experience of integration programmes, however, has left behind it a trail of conflicts and failures which are in contrast with the faraway optimism of scientific lucubrations on this topic.

Observation of the vicissitudes undergone by these groupings shows remarkable coincidences. With variants arising out of the special circumstances of each programme, there is a pattern that prevails in every case. Accordingly, with the inevitable simplifications, it is possible to pinpoint a set of basic problems, to outline which, as an initial hypothesis, is the aim of these pages.

In accordance with a definition based more on the origin of the problems than on the forms they take, the principal conflicts besetting the integration movements of developing countries can be summed up as follows:

- (i) incompatibility of political systems with integration in general or with the mechanisms chosen to achieve it;
- (ii) problems of political relations between the States, often with territorial (geopolitical) connotations;
- (iii) differences between member countries in respect of the industrial development attained, and their potential or capacity for such development, a problem which manifests itself chiefly in the dissatisfaction of some of these countries with the distribution of the costs and benefits of integration;
- (iv) other differences in economic structure between the member countries, which affect the operation and therefore the objectives of the integration mechanisms.

As can be seen, of the conflicts listed the first two are of a primarily political character; when they are present, integration lacks a favourable political framework and its eco-

conomic implications are largely irrelevant. The other two problems are directly related to the economic motivations of integration and the operation of its mechanisms, and it is therefore principally to these that we shall devote attention in the following pages, although not without first briefly defining the scope of the two political problems.

1. *Incompatibility of political systems*

The two cases in which this sort of conflict has definitely arisen¹⁷ clearly illustrate its nature and seriousness. In the Andean Group, Chile's position in opting for integration with the world market as the final objective of its economic policy created an essential incompatibility with the spatially limited integration of the Andean Group. The conflict concerning the level of the Common External Tariff is one expression of this incompatibility. In default of a change in the original positions, the only solution for the problem was the one finally adopted: the withdrawal of Chile.

In the other case, that of the problems caused by State trading in the East African Community, the incongruity between political systems seems less obvious because, in the end, both Tanzania on the one hand and Kenya and Uganda on the other resorted to State trading organizations which in a greater or a lesser degree interfered with the tariff liberalization mechanisms which the Treaty used as its principal instrument. Strictly speaking, however, it was Tanzania, a socialist country, with its State Trading Corporation, that began to segregate products which were reserved for State trading, especially where imports were concerned. With the contemporary nationalization of enterprises, the list grew longer, and the STC was divided into several corporations,

many of which, besides being producers, held a monopoly of imports of the corresponding products.¹⁸ Inevitably, the other countries saw in this kind of organization a means of evading considerations of costs and prices and illegitimately restricting imports. Largely as a reprisal, Kenya set up its National Trading Corporation, and Uganda followed suit.

Apart from the special features of each case, it is of importance to single out the form of incompatibility that may emerge in integration programmes combining countries with market economies—i.e., sovereignty of the consumer and allocation of resources through the price mechanism—and socialist countries, characterized by planning of foreign trade and monopolistic State trading of most of their production, in particular imports and exports. None of the usual systems for making markets more open can function in such conditions: in the socialist country the reduction or elimination of tariff duties is basically ineffectual as an inducement to buy and, conversely, if the opening-up system is based on the planning of trade, the country with a market economy has no instruments for really complying with the stipulations of the programme. This functional incompatibility of systems differs from the case first stated—incompatibility with free trade *à l'outrance*—inasmuch as there the very motivation for integration is lacking, which is not a necessary assumption in respect of the functional incompatibility described.

Essential incompatibility was exemplified in its unadulterated forms in the Andean Group; functional incompatibility appeared, with its outlines somewhat blurred by the weight of other problems, in the East African Community. At least as an ideological discrepancy, it would also seem to be present in CARICOM. In a world of mixed economies like that of the developing countries, what is most probable is that this

¹⁷The position as between CARICOM and Guyana is not taken into account because, according to the information available, there is no record of incompatibility between mechanisms, although ideological divergences do exist.

¹⁸See Arthur Hazlewood, *op. cit.*, pp. 124 and 131.

contradiction will not occur in pure forms, but through fragmentary and limited interventions by State enterprises which restrict certain trade flows. Possibly, too, in consequence of the course of history, or other causes that determine an economic structure, the sphere of action of State enterprises may vary greatly among member countries; in that case, instead of incompatibility of political systems, structural differences would be a more accurate term: heterogeneities that affect the scope and instruments of integration. This problem falls into a different category, which will be dealt with later under the head of "Other differences in economic structure".

2. *Conflicts in political relations between member States*

This broad heading covers all sorts of conflicts between member States that are brought about by causes alien to economic integration. It is easy to understand that such situations, when they are sufficiently serious, wipe out the very possibility of integration. This is what has happened in the case of Honduras after its conflict with El Salvador, in the Central American Common Market. Even the mere existence of tense situations in inter-State relationships has repercussions on integration. Suffice it to recall the effect on the fortunes of the East African Community produced by the impossibility of convening its maximum organ, the East African Authority, formed by the Chiefs of State, owing to the refusal of President Nyerere of Tanzania to meet Idi Amin of Uganda.

Problems of this kind can arise in almost all integration movements in the developing countries. The countries concerned are physically adjacent, often with territorial or other disputes in their history, and have been incited to seek integration, *inter alia*, by their desire to find ways of improving their relationships and their possibilities of resolving such problems. But for that very reason, these efforts are extremely sensitive

to the general tone of inter-State relationships.

3. *Differences between member countries in respect of the degree of industrial development attained and their capacity for such development*

It is almost a commonplace to say that one of the most frequent causes of conflicts in integration among developing countries is the distribution of the costs and benefits of integration. Customs union theory measures this distribution in terms of creation and diversion of trade, but in reality the decisive element in the political evaluation of its results is the extent to which countries participate in the siting of the new industries which integration makes possible.

Industrial development is the fundamental incentive to integration among developing countries. The political evaluation of benefits tends to be based, in the first place, on the degree to which the integration formula effectively permits such development, in particular the installation of new integration industries, and, secondly, on comparison of the results obtained by each of the countries participating in the integration programme. The evaluation may also be influenced by the expansion and balance of trade flows, since the desire to increase them is another motive for integration. However, at least in the earliest stages of integration movements, this consideration seems to come second to participation in integration industry. It should be noted that even the oldest integration formulas in the developing world are still in those initial phases in which the aim is to construct a different industrial base, taking advantage of the new economic space available. Consequently, the mere volume of trade flows is not usually of central importance for the purposes of evaluation; on the contrary, more account is taken of the proportion of traditional and new (almost always manufactured) products in those flows, which re-

flects the impact of the industrial development induced by integration.

Dissatisfaction with the results largely explains the sluggishness of the Latin American Free-Trade Association; the conflicts and what may, up to a point, be considered the regression of the Central American Common Market; the disruption, which has every appearance of being final, of the East African Community; the stagnation of the Central African Customs and Economic Union; and, to a great extent, the current problems of the Caribbean Community. And even the difficult period through which the Andean Group has passed may be attributed above all to the stumbling-blocks met with in the negotiation of the industrial programmes.

The fact that does most to account for this dissatisfaction is the existence in the groupings concerned of marked disparities between member countries in the degree of industrial development attained or, at least, in their capacity to serve as a basis for integration industry. In all of them some countries stand out as those with the greatest potentialities. Within the East African Community, the supremacy of Kenya has been the apple of discord in its principal conflicts. In the Central African Customs and Economic Union, the country best endowed and in the most advantageous situation for industrial development is Cameroon; in the Latin American Free-Trade Association the corresponding position is occupied by Argentina, Brazil and Mexico, the three largest countries; in the Central American Common Market, by Guatemala and El Salvador; in the Caribbean Community, by Trinidad and Tobago and all the bigger islands, over against the less developed countries grouped in the East Caribbean Common Market; and in the Andean Group, Colombia and Venezuela are outstanding.

The dominant position in each grouping does not necessarily correspond to a country's superior economic size or appreciably higher per capita income. (See annex.) What matters is the degree of industrial de-

velopment attained, inasmuch as it implies greater capacity to take advantage of the benefits of integration in this field—a characteristic which is displayed in the volume and composition of trade with the other members of the grouping—and also the way in which some of the member countries perceive the advantages over them that others may enjoy by virtue both of their resources and of their policies.

To sum up, if one tries to get to the bottom of the problem, the major source of conflicts in integration among developing countries appears to be the heterogeneity of the countries affiliated to such groupings in respect of the industrial development achieved and the capacity to exploit the opportunities offered by integration industry. This is no new pronouncement, since it figures in all the analyses relating to specific situations in integration movements. What is surprising is that its significance has not been recognized in an integration theory which, obviously, has overlooked the fact that in the developing world heterogeneity may be much more marked than among industrialized countries, and that it is pregnant with real or psychological implications for integration prospects and instruments.

As far as can be seen, this heterogeneity influences integration in two ways. In the first place, as has already been remarked, it induces mistrust on the part of the weaker countries (an *ex ante* attitude) or dissatisfaction at the distribution of benefits (an *ex post* attitude). These two reactions together tend to limit the scope of integration and even, as has been shown, to set it back. But that is not the only way in which heterogeneity can affect integration. It may be assumed that, *ceteris paribus*, the motivations¹⁹ for integration will differ in intensity

¹⁹The writer is conscious of the simplification implied by a concept of collective motivations in dealing with such phenomena as integration, which affect different social groups in different ways. In the present case, however, this simplification is useful as a method-

as between a country with a relatively large domestic market and other conditions favourable for industrialization, and another with a smaller domestic market, less industrial tradition and, in general, inferior capacity for industrial development, however this is measured. The second may reasonably be expected to have stronger incentives to seek thoroughgoing forms of integration. The two countries will pursue different integration objectives, and the mechanisms they prefer will be different likewise. Their participation in the same integration formula will result in a tendency either to reduce the scope of the objectives and weaken the mechanisms—when the opinion of the larger and more industrially advanced country, which is usually the one with superior bargaining capacity, carries the day—or to concert integration objectives and patterns which will subsequently prove non-viable in their full depth.

The first situation occurred in the case of ALALC, where the more powerful countries managed to exclude any system which might effectively give an opportunity to the weaker countries in integration industry. The result was, as has been stated, continual dissatisfaction on the part of the latter and, in the end, the stagnation of the process. The second situation—a formula with ambitious but non-viable objectives—seems to be that of the Arab Economic Unity Council, which embraces an extremely heterogeneous set of countries.

In considering the influence of the differences in capacity for industrial development and in intensity of motivations for integration which probably go hand in hand with the aforesaid heterogeneity, some thought may also be given to another factor: the economic size of the integration area, or, more exactly, how far its dimensions as a

market will permit of the change in industrial structure which it is hoped will be achieved through integration. In integration areas of small economic dimensions the motivations in question are less strong, especially in the case of those countries participating in the programme whose capacity for industrial development is greatest. In addition to other economic effects—such as the steadily increasing dependence on imports of industrial raw materials and intermediate products from third countries which is observable, for example, in CARICOM—the small size of the expanded market may undoubtedly contribute *per se* to aggravate the discontent and discordance about objectives and mechanisms. *Ceteris paribus*, a larger integration area would be less liable to conflicts of this kind.

Without attempting to carry this analysis farther, it may be asserted that the disparity in industrial development and in potentialities for it, the particular combination of countries participating in each integration formula, and the possibilities afforded by the new space, particularly in terms of its economic size, join in creating situations either more or less favourable to integration and to the application of the various instrumental alternatives for conducting the market integration process. These are aspects of the problem which have been mainly overlooked, and to which integration theory will have to give due weight in the future.

From the standpoint of integration policies, only one of these phenomena stemming from the heterogeneity of the affiliated countries has been especially taken into account in the selection of integration mechanisms: namely, the tendency towards concentration of the benefits of integration, especially industrial development, in the economically more advanced and more powerful countries.

In all the integration formulas studied, an attempt has been made to establish treatments in favour of the weaker countries which will help to offset their disadvantages in the integration process. Cases in point are

ological recourse, since little would be gained by extending the analysis at this stage to the complexities of the social and political process of gestation and expression of such motivations.

afforded by ALALC's special lists of non-reciprocal concessions and the 'transfer tax' of the East African Community. In Africa in particular, compensation has also been sought through redistribution of customs or tax revenue; in addition, some of the groupings expressly state that among the objectives pursued by their industrialization policy mechanisms is included the achievement of what is described as the 'harmonious and balanced' or 'equitable' development of all the member countries; in the case of the new UDEAC Treaty, mention is even made of sectoral industrial programmes, although the instrument is not precisely defined and has not been really brought into operation. This latter step has, however, been taken in the Andean Group, which in this connexion is the exception to the rule.

The reasons why the preferential systems stipulated in some integration formulas have been ineffectual have often been analysed.²⁰ In brief, most of them have been of a defensive character (like the East African Community's transfer tax), or have been confined to granting certain tariff preferences which, of course, have not been sufficient to offset the advantages of siting in the more dynamic countries. Whenever treaties have made express mention of industrial policies aiming at balanced development, the common practice has been to deliver them over to an almost impossible case-by-case negotiation (as was done with the Régime for Central American Integration Industries or the allocation of industries in the East African Community or in UDEAC), or to deal with the subject in such general terms that the whole thing has stopped at declarations of no practical importance.

The system of the Andean Group, which, as said above, has shown itself ap-

propriate up to now for the purposes in question, consists in programming of communal enterprise by industrial sectors, and its essence is the determination of sitings which will serve as an authentic factor in the promotion of investment. In this sense, despite the difficulties and conflicts that have had to be faced in the preparation and negotiation of the programmes, it would seem to be a valid instrument as an element of partial compensation for the differences in national capacities to promote the development of integration industries. The full implementation of the programmes will have to be awaited before a more definite judgement on the efficacy of the mechanism can be formulated, but the partial successes achieved so far, and above all the expectations generated, warrant the assertion that it has managed largely to prevent the dissatisfaction and the apprehensions on which integration efforts have hitherto run aground after their first two or three years of existence. This evaluation, which takes into account the conditions of heterogeneity proper to the Andean Group, could not be extended to any or every integration system. For example, such extreme situations of heterogeneity can be imagined as would make it impossible for programming to work at all. The subject will be dealt with in greater detail in a later section of the present article.

4. *Other differences in economic structure.*

The reference made above to the differences in the scope and functions of State enterprises brought to the fore a kind of problem which derives from dissimilarities in economic and social structure between the countries seeking integration. These differences affect the motivation for integration, or the applicability and efficacy of its instruments.

Examination of the integration groupings of the developing world reveals several outstanding illustrations of problems of this kind. For example, in the Central American

²⁰See footnote 15, and also Germánico Salgado, "Economic integration of developing countries and the role of joint industrial planning", *Journal of Development Planning*, N.º 8, United Nations publication, New York, 1975.

Common Market the difference between the economic and social structure of Costa Rica and that of the other member countries seems, in my opinion, to account for the difficulties which have been encountered in harmonizing their policies (exchange policy, for example). In ALALC's case, one cannot but see how far the possibilities of harmonizing policies are limited by the existence of marked differences in certain characteristics of the member countries' economies, such as rates of inflation, for example, which are so persistent in certain Latin American countries and reflect realities of their economic and social structure. Again, differences of this kind, albeit less marked, appear to have contributed to some extent to the problems of the East African Community.

Other examples could be cited of structural differences which in the gestation of these movements restrict integration objectives and subsequently hamper the advance of the process. It is important to distinguish them from other differences in economic policy which are normal among countries seeking integration, and whose gradual reconciliation is the essence of integration policies. When there are several possible economic policy options for achieving ends that the States cannot forego, such as economic development or political stability, and of these options one or more offer better prospects for integration, a terrain has been reached in which efforts at reconciliation, harmonization and even unification of policies can bear fruit.

Normally, a measure of freedom of choice exists in respect of the economic policies formulated to strengthen or counteract certain features of the economic structure; for example, to promote export diversification it is possible to choose between uniformly low tariffs and subsidies, and one or the other, according to circumstances, may be more favourable for reconciling

policies with a view to integration. This freedom of choice is lacking in the case of policies determined by basic features of the economic structure which it is not intended to alter, or which, if they are unfavourable, can be changed only by slow degrees. Thus, countries with more highly developed social and economic structures will be opposed to a reconciliation of policies which in one way or another may cause in their case regressive income redistribution; and, to cite another example, it would be very difficult for countries with chronic inflation to allow others to impose upon them a harmonization of exchange policy based on fixed rates of exchange.²¹ Numbers of similar examples could be adduced which arise out of situations so deep-rooted that over the short and medium term they seem to leave no alternative open. So long as these features remain unchanged, the integration movement—which may be a way of changing them gradually—will have to adapt its instruments to them, or will find itself compelled to limit its objectives. Later on the structural differences that appear to be most closely linked to integration problems will be reviewed.

Hitherto the aim pursued has been to classify the problems noted in the integration groupings of developing countries according to their nature, with a view to arriving subsequently at some conclusions of a fairly general character. To this latter purpose the following section will be devoted, with due regard to the fact that the analysis is based on certain hypotheses as to collective motivations which obviously imply a simplification of the real situations.

²¹For a more systematic discussion of the subject, see Germánico Salgado, "Integración, conciliación de políticas y diferencias de estructura económica", in Instituto para la Integración de América Latina, *Integración Económica*, Year 2, N.º 3, Buenos Aires (Argentina), May 1977.

IV

Motivations and patterns of viable integration

In this section an attempt will be made to assemble the conclusions of the foregoing analysis in a tentative theoretical system whereby attention can be focused on some of the basic variables of the integration process among developing countries. Inevitably, political and sociological concepts will be involved in respect of which the author has no professional qualifications. His excuse for venturing into their domain is that in face of the problems of integration and its repeated failures a broad view of social action is more important than the rigour of exclusively economic analysis. The present paper will have fulfilled its purpose if it serves to point out elements that have been somewhat neglected in the analysis of integration and if it thereby makes for greater realism in the policies which, with integration objectives in view, the developing countries concert.

Initially, a brief description will be given of those motivations which, to judge from experience, have done most to induce developing countries to decide on integrating their economies.

Industrial development and technological progress. The objective pursued is not a mere quantitative change in industrialization in general, but a different structure of industrial activity, which, in addition to its other economic effects, may stimulate technological progress and more profoundly influence economic activity as a whole. For the sake of brevity, in the text this motivation will be designated that of 'change in industrial structure'.

Expansion of trade and more efficient utilization of existing production capacity. This is the motivation on which the analysis of integration benefits is usually based. The expansion of the market by the liberalization

of trade permits of specialization and the more efficient use of installed capacity. It also furthers industrialization objectives, in so far as trade induces the installation of additional capacity and enables the industrial structure to evolve towards a higher degree of specialization.

Increase in capacity to negotiate with third parties. Improvement of inter-State political relationships. These last two motivations play a very important part in the gestation of integration movements, and neglect of the second in particular may result in the stagnation or disruption of programmes. Nevertheless, these two 'political' incentives carry much less weight than the first two, which we will call 'economic', when it comes to establishing the objectives and patterns of integration. The analysis in this section will pivot upon these economic motivations, although later we shall briefly revert to the influence of political motivations, or of their absence.

A propos of these economic motivations a word of warning is due. They represent the immediate ends that economic integration may help to attain, but underlying them, obviously, is the aspiration towards economic and social progress, with a whole series of objectives such as the growth of the product, increased employment, the eradication of poverty and others. Strictly speaking, the preference for industrialization or for the expansion of trade implies a relationship between these phenomena and the overall development of society, which would appear to be the ultimate motivation of integration. For the purpose of analysing the objective and instruments of integration, however, it is desirable to concentrate on the goals which the latter, as an economic policy, can directly attain, and they are in the

last analysis those which correspond to the two economic motivations mentioned above.²²

The distinction between these two economic motivations signifies undoubtedly some simplification, since they could be seen as gradations in a continuous spectrum. It was thought preferable, however, to mark the differences between the aspiration which implies the evolutionary growth of an industrial base, and that which involves a switch-over from one industrial structure to another thanks to the broadening of the market. This is not only more in keeping with political perceptions of the industrialization phenomenon, but is also warranted by the possibility of discontinuities in the economic development process.

Of the two economic motivations in question, it is the one related to the expansion of trade that has, in the writer's opinion, most strongly influenced the integration movements concerted among industrialized countries, although that of industrial change is present too, since even in such economies there may be different degrees of industrialization and structures of greater or lesser efficiency, partly consequent upon the limitations of the national markets. At all events, it may safely be said that in the case of the industrial countries the expansion of trade is a stronger motivation than industrial change. In the terms we shall use throughout the rest of this paper, the first of these could be described as having, in such circumstances, greater 'intensity' than the second, and as holding, for that very reason, a higher 'rank' among the motives for integration.

²² For the sake of brevity, no attempt will be made here to elucidate the relations between integration and the development of activities other than industry, such as agriculture. Although this development is at least partly implicit in the phenomena to which the two economic motivations relate, the fact that it is not explicitly mentioned suggests the view that integration, as an economic policy, can more efficaciously serve the purposes of industrial development than those of other sectors of activity.

Observation of what has happened in the integration groupings of the developing world indicates, in contrast, that ordinarily the industrial change motivation predominates, which is not surprising in view of the deficiencies and gaps in their industrial structure. Although both economic motivations are present and influence integration decisions, it is the second that prevails, and primarily accounts for their adoption; that is, it is of greater 'intensity' and higher 'rank' than the first. Nevertheless, in developing countries whose industrial structures are quite well-developed and efficient, at least in respect of certain branches of specialization—often because their national markets are large—, it may well happen that the expansion of trade takes precedence over industrial change as a motivation; this seems logical, given their circumstances, where integration with other developing countries is concerned.

Obviously, the intensity and ranking of the motivations will determine the objectives which each country hopes to attain through the integration process. If in each of the countries participating in the integration movement the intensity and rank of the motivations coincide, a similar coincidence may be expected in the objectives by which the process is inspired, in what is demanded of it, and, consequently, in the main aspects of its instrumental patterns.

But even if in the individual countries participating in an integration movement the motivation constituted by a change in industrial structure is of greater intensity than that represented by the expansion of trade, and accordingly the former ranks higher than the latter—which would be almost the norm among developing countries—, there is no reason to expect that the intensity and consequent ranking of motivations will be similar in all the member countries. They will be different if conditions differ from one country to another; and furthermore, they are exposed to modification in function of the relative position that each of them holds within the integration programme. This

relative position may even alter the ranking of the motivations. This might happen, for example, in a country whose national market is much larger than that of another participant in the integration formula. The first of these countries may be strongly motivated by the change in industrial structure, and much more feebly by the expansion of trade; nevertheless, if it took the path of integration with the country whose market was smaller, the trade expansion motivation might prevail, because that would be the objective which the integration in question would enable it to attain. There would be no reason for this change in rank to occur in the other country. In those circumstances, it is logical that the two countries should differ with respect to what each demands from the process and to the instruments they are prepared to use, a discrepancy which, as has been shown, is the major source of conflicts in the integration movements of the developing world.

Accordingly, it is worth while to look into the factors that influence the intensity and rank of the motivations of countries seeking integration. The analysis would become too complex unless hypotheses were established that take for granted certain variables conditioning social action from outside, or stemming from internal changes in the power structure with their corresponding ideological connotations. For example, a reduction of the degree of autonomy tolerated by the international power centres will almost certainly affect the political expression of the incentives to integration; this may also happen if changes in the dominant groups in a society involve a modification of the prevailing ideology, in a direction either more or less favourable to integration than the preceding situation. Thus, the tide of free-trade policy which has begun to sweep through Latin America in the past few years has undoubtedly helped to weaken the intensity of such motivations, and the above-mentioned problems of the Andean Group with Chile are a valid illustration of this phenomenon. Similar

effects would be produced by the spread of the power of the transnational corporations, in so far as they use developing economies as subsidiary centres for exports to international markets, which is already happening in the more advanced countries of the Third World.

If, for the purposes of the analysis, these variables are taken to remain unchanged, and if, moreover, we confine ourselves to the most general determinants of these preferences for industrialization or for the expansion of trade, shelving other circumstances of economic structure which are proper to each individual country, it might be asserted that the intensity and rank of the motivations of countries seeking integration are influenced by the following factors:

(i) the degree of industrial development that a country has attained, and the relation existing between its economic dimensions and the market size that would be necessary in order to achieve the desired change in the industrial structure;

(ii) the economic dimensions of the integration area in relation to the size which would be necessary in order to bring about that desired change in the industrial structure;

(iii) the country's relative position, as regards the degree of industrial development attained, *vis-à-vis* other countries participating in the integration movement.

The writer is aware of the limitations of the concepts 'degree of industrial development' and 'economic dimensions'. What is meant by the latter is the capacity as a market of a national economy, or of the integration area, as the case may be. Implicit in this is an idea of scale projected into the macro-economic field which would not, of course, be single or invariable, but would rather indicate a range of dimensions tending to shift, with the evolution of technology, towards steadily increasing magnitudes. For the time being, it is not the purpose of the present paper to examine the difficulties of measuring the said dimension. Simply to provide, as a basis, some indicator of the

dimensions of the national economies, the annex presents, as already mentioned, data on the total gross national product and the population of the countries participating in the various integration formulas of the developing world.

Still more complex is the concept of the degree of industrial development. There is no need here to pronounce in favour of any one of the compound indexes which have been proposed for its measurement. The important point is that the concept comprises, in addition to the element of efficiency, an assessment of the greater or lesser degree of interdependence of industrial activities. In this context, key importance would attach to the development of activities producing intermediate and capital goods. Furthermore, implicit in the concept of the degree of industrial development attained by a country is a judgement of its capacity to take advantage of the industrial opportunities opened up to it by integration, for the said concept also represents the aptitude that a society has acquired for promoting and developing the new integration industries— an aptitude which we formerly termed capacity or potentiality for industrial development. With these points clarified, the time is now ripe to analyse the influence of the elements in question on the two economic motivations for integration.

The first of them, consisting in the degree of industrial development attained by a country and the existing relationship between its economic dimensions and the market size considered necessary for industrial change (which for brevity's sake we shall henceforward describe as 'required'),²³ exerts a direct and powerful influence on motivations. The higher the degree of industrial development a country has achieved and the closer its economic dimensions to the 'required' market size, the less will be the intensity of the two motivations.

²³Even though it may be different in each case according to the degree of development attained and other factors.

Nevertheless, these factors would affect the industrial change motivation more profoundly than that of the expansion of trade, since there is always the possibility that specialization may bring trade gains. Conversely, the lower a country's degree of industrial development and the farther its economic dimensions from the 'required' market size, the greater will be the intensity of the two motivations, especially of that relating to industrial change. For the same reason, in the ranking of the motivations appreciable differences may be expected between the two, with some countries giving more relative importance to the expansion of trade and others to industrial change.

The second element relates to the effect of the size of the integration area on motivations. A large integration area, with dimensions equalling or exceeding the size 'required' by the most industrially developed of the countries seeking integration, will be favourable to the intensity of both motivations in all participants, but particularly to that of the industrial change incentive. An integration area of less than the size 'required' by one or more of the participating countries would weaken the intensity of both motivations, at least in the more industrially developed countries, and in particular would lessen that of industrial change in relation to that of trade expansion. In contrast, a large integration area would attenuate the difference in motivations attributable to the degree of industrial development attained, while a small integration area would aggravate those differences in intensity and rank.

Clearly, the evaluation of an integration area as large or small depends first and foremost upon its relation to the size 'required' by the most industrially advanced of the participating countries. In this sense, and with respect to its effect on motivations, the size of the integration area is a relative concept, so that it is possible to conceive of integration areas which can be described as small in function of a particular experience and which, nevertheless, are sufficient, that

is, equal or superior in size to the dimensions 'required' by any of the participants. We said that this relativity exists, in the first place, because an integration area that is small in absolute terms — i.e., measured by the ideal margins of size demanded by technical progress— will tend to become insufficient more quickly if really good use is made of integration opportunities. But as long as this does not happen, as long as the size of the area remains adequate, there will be no reason for it to inhibit the industrial change motivation.

The third element, which has to do with each country's relative position within the integration area, that is, *vis-à-vis* the other members of the movement, opens the subject that we believe to be of fundamental importance: that of the differences in industrial development between the countries members of an integration area, i.e., the homogeneity or heterogeneity of this characteristic of their economic structure.

Part of the consequences of this heterogeneity (or homogeneity) can be deduced from the analysis made, in the context of heterogeneity, of the effects produced on motivations by the degree of industrial development that each country has attained and the market size 'required' for industrial change. In this case, the effect of heterogeneity is determined by comparing the countries' individual situations, without reference to their interrelationships.

But just as important as this first effect of heterogeneity are the repercussions of each country's relative position within the integration programme: that is, the changes that these same motivations undergo as a result of each country's individual situation, once its relation to the situations of the other countries is established. In this case it is no longer a country's own degree of industrial development that is the determining factor but that of the rest, inasmuch as it may signify a difference in the capacity to benefit by integration, and relatively advantageous or disadvantageous positions which undoubtedly affect motivations. It is certainly

reasonable to suppose that countries with a higher degree of industrialization are in a more favourable position than the less industrialized to turn to good account the opportunities afforded by integration, both for industrialization and for the expansion of trade. They are so not only by virtue of their productive base, but on account of their capacity to outstrip the less advanced countries in the development of the new integration industries. These are real situations of superiority or inferiority in relation to the preference for industrialization, that in the sphere of integration policy are frequently associated with collective feelings of relative 'superiority' or 'inferiority' which, of course, have powerful repercussions on the motivations.

Because of these absolute or relative effects, the greater the heterogeneity, the more marked will be, in general, the differences in the intensity and ranking of the motivations. It is possible to imagine situations, however, in which the effect of the relative positions tends to counteract the differences in motivations stemming from the other factors. This may happen when awareness of their relative position has so acute an inhibitive effect on the industrial change motivation in the weaker countries that it brings them closer to the stronger in respect of the intensity and ranking of motivations. In that case, however, in view of the insufficient intensity of the motivations, the conditions for integration would not exist, a circumstance that would indicate an extreme situation.

Consequently, it may be said that the heterogeneity of countries as regards their degree of industrial development (and their capacity to change their industrial structure) is reflected in differences in the intensity and ranking of motivations, and that these, except in extreme cases, are accentuated when awareness of the relative position within the integration area comes into play. In contrast, homogeneity in respect of these characteristics would have the opposite effect, and that would imply greater coin-

cidence in the choice of integration objectives and of the instrumental patterns of the process.

An analysis of the whole varied range of possible combinations, taking into account the different options consistent with the three concepts described, would be not only tiresome but somewhat meaningless. Suffice it, therefore, to assemble its conclusions in a simple presentation of the circumstances considered most propitious for economic integration from the standpoint of the coherence of the participants' motivations. These favourable conditions would occur in the following cases:

(i) the lower the degree of industrial development attained by the participating countries and the farther their economic dimensions from the size 'required' for a change in the industrial structure;

(ii) the larger the economic dimensions of the integration area and the higher the degree in which it approaches or exceeds the economic size 'required' by all the participants;

(iii) the more homogeneous (or the less heterogeneous) the participants as regards the degree of industrial development attained and their economic dimensions.

It might be alleged that the first condition contradicts the second. This is not necessarily so. Even if the countries are of limited economic size, the integration area may be large enough if the grouping comprises a considerable number of countries. This may involve problems of another kind (of management, for example), but not those of motivation. As already pointed out, the condition may even be fulfilled, at least temporarily, even if the integration area is small in absolute terms, provided that it is sufficient for the industrially most developed of the countries seeking integration.

With these conclusions in mind, the next question to be asked is what would be the conditions least favourable to economic integration. Conversely, they would exist in the following circumstances:

(i) the higher the degree of industrial

development attained by the participating countries and the closer their economic dimensions to the size 'required' for a change in the industrial structure;

(ii) the smaller the economic dimensions of the integration area and the farther it is from the economic size 'required' by the participants;

(iii) the more heterogeneous the participants as regards the degree of industrial development attained and their economic dimensions.

The real phenomena of economic integration lie between these extremes. The next step is to identify a few type cases among all the possible alternatives.

In the optimum situation, which we will call *case A*, the participants would be at a low stage of industrial development and their economies would be of small size, so that the degree of intensity of both the economic motivations for integration would be high, but especially so in the case of that relating to industrial change. The integration area being large, this intensity would be still further accentuated, and the relative homogeneity in the industrial development of the countries concerned would facilitate coincidence of the objectives of the integration effort and therefore of its instrumental patterns. Market integration could be in depth, that is, ambitious with regard to the unification of the economic space, and broad in respect of the activities comprised in the process. The relative homogeneity of the countries would create real and psychological conditions favourable to the operation of automatic trade liberalization mechanisms (unless the countries concerned were socialist) as a means of allocating resources in the new economic space. This would simplify the instruments of integration and its institutional organization, which could dispense with communal planning organs, necessary mainly to ward off conflicts deriving from the distribution of the costs and benefits of integration.

Nevertheless, the ambitious integration objectives which the grouping would set up

in this case would call for harmonization or unification of policy on several fronts, implying complex action and communal technical and administrative institutions, as well as organs empowered to settle controversies.

Thus outlined, the conditions in case A—the optimum situation—recall the hypotheses on which the classic model of a customs union is based, and the conclusions as to the media and instruments of integration are therefore identical in the two cases.

If in this ideal type case, characterized by the most favourable conditions, each of those conditions in turn is replaced by its opposite, i.e., the condition that is most unfavourable, several typical situations take shape, one or two of the most relevant of which will next be examined.

Case B would result from replacing the first condition in the optimum case by its contrary, and, therefore, would represent an integration programme characterized by: (i) member countries with a relatively high degree of industrial development and economic dimensions close to the 'required' size; (ii) a large integration area, bigger than the market size 'required' by any of the participants for industrial change; and (iii) relative homogeneity of the member countries in their degree of industrial development and their economic size. The intensity of the motivations would be less than in case A, and this reduction of intensity would be particularly marked in the motivation relating to a change in the industrial structure, since even without integration the countries concerned would be very near to attaining the market size they would need for such development. The inhibitive effect would also extend to the trade expansion motivation, but it would probably be less, since the expansion of the market would make it possible to take full advantage of installed capacity and gradually consolidate lines of specialization.

Given the favourable conditions as regards the size of the integration area and

the homogeneity of the member countries, integration is possible and viable in case B. The motivations for market integration in depth and breadth would be lacking, but what could be envisaged would be selective action to concentrate effort in specific activities in which requirements of scale were greater. In these it would be possible to arrive at partial integration programmes which, with this limitation, might well be carried out in depth. With regard to the expansion of trade, the homogeneity of the countries in particular would be favourable to broad-based integration, although since the intensity of this motivation would in any event be slight, what is most likely is that, in default of other cohesive forces—of a political nature, for example—this integration would tend on the whole to be superficial. To sum up, in this case B a broad though superficial form of integration could be expected, except in certain economic activities, industrial or otherwise, where in order to profit by advantages of scale the co-operation effort might gain in depth.

As regards integration policies and institutions, this and the preceding case have in common the possibility of using relatively simple trade liberalization mechanisms. The looser integration which is the objective in case B could be achieved with fewer policy harmonization requisites, than in case A, and the organization could be simpler, except perhaps in the institutional mechanisms that might ultimately be needed for administration of the sectors chosen for integration in greater depth.

None of the developing countries' integration groupings would appear to approximate to case B if all their members are taken into account. If, however, we were to consider only the three largest ALALC countries—Argentina, Brazil and Mexico—, which because of the characteristics of the ALALC formula can establish interrelationships virtually specific to themselves, we should meet with a situation not unlike case B. Roughly speaking, we should see that market integration is broad in scope, but

superficial, since liberalization is reduced to a generally low tariff preference. The complementarity agreements, which in practice link up only these three countries, constitute selective integration efforts in somewhat greater depth in certain industrial activities, more or less in line with what was indicated in this connexion in case B. It is interesting to note that despite the theoretical potentialities of integration among the three countries in question, none of them has proposed going any farther, a fact which is symptomatic of the weakness of their motivations.

Case C would result from replacing the large integration area in case A by a small one, falling short of the size 'required' by the participants for a change in their industrial structure. The other two conditions would remain the same: the low degree of industrial development and narrow economic dimensions of the member countries, together with homogeneity among them in respect of these characteristics.

Given the characteristics of the case as set forth, the size of the integration area would be smaller than that 'required' by each and all of the participants, since in this sense they would be homogeneous. Thus, the 'required' dimensions should be understood in relation to the industrial change objectives proper to those countries, which would not necessarily propose as their target the development of an integrated industry producing intermediate and capital goods. Strictly speaking, to constitute case C it would be enough for the size of the area to be insufficient for attainment of the 'higher' stages that all the participants would be able and wishful to attain, even if these were less ambitious than the development of an advanced industrial sector.

The foregoing requisites are not of course met just by any industrial progress whatsoever. If the countries submit to the demands of integration, they do so because it may enable them to achieve what they consider a substantial advance, as, for example, the move from an industrialization

process covering only a limited range of current consumer goods to an industrial structure which comprises the manufacture of durable consumer goods, some intermediate products and simple capital goods, such as machine-tools. Implicit in the reference to 'higher stages', therefore, is the idea of discontinuity in the development process, even though it may be modest in its scope.

The case being thus defined, if the integration area did not even reach the dimensions required for the desired 'stage' of industrialization, the high intensity and coherence of motivations that the characteristics of the countries might lead one to expect would be partly offset by the smallness of the area, which would inhibit, above all, the industrial change motivation. The result would then be an integration that was superficial in its effects, even though liberalization might be complete. The trade expansion motivation would probably be less affected by the modest size of the integration area, and, consequently, there would be a tendency to attach more importance to the mechanisms that might facilitate the growth of trade than to those through which the creation of the new integration industry could be encouraged. Integration policies would perhaps be more complex than in case B and more similar to those of case A, given the full opening-up of markets which would be necessary if the limited effects of such an integration programme were to be turned to the best possible account. This would imply harmonization of policies and, therefore, a relatively well-developed institutional organization. In view of the homogeneity of the countries, however, liberalization might function effectively through automatic opening mechanisms which would minimize the need for communal bodies.

The fragility of an integration programme implemented in such conditions stems precisely from the contrast between the requirements in respect of the opening-up of markets, a process always liable to breed conflict, and the limited effects which can be expected from it as regards industrial devel-

opment. It is not very likely that the movement will be able to give rise to a stable integrated society when, in face of the risk of conflict, no real possibility of approximating to the desired industrial development exists as a counterpart.

The situation would be different in an integration programme whose participants, as in the preceding case, were only in the early stages of industrial development, small in their economic size and homogeneous in these characteristics, but which had at their disposal an integration area of the dimensions 'required' for the attainment of the new 'stage' of industrialization, in the sense indicated above. This would be a situation assimilable to that of case A, more favourable to integration with all its functional consequences. One reservation must be made, however. As a real advance into this stage was achieved, even if only in part, the size of the integration area might become a limiting factor and the conditions of the integration movement might approximate more closely to those of case C.

This collision with the frontiers of the integration area might be theoretically postulated for any integration movement as an event that sooner or later will come to pass. In practice, given the time required for such integration as will make it possible to pursue the ambitious objective of laying the foundations of a modern industrial sector, with all its wealth of interdependent relationships and technological stimuli, the limiting effect would be valid solely for groupings whose integration area allowed them to reach only the relatively modest stages to which reference was made above. If such groupings were successful, they would have to enlarge the integration area by admitting new members or through fusion with other integration programmes, in order to pave the way for new and stable forms of integrated societies.

Several of the integration groupings in the developing world are operating in integration areas which can be classed as small by all criteria. While it is very risky to hazard opinions on this subject, for illustra-

tive purposes it might be said that two of them, the Central African Customs and Economic Union (UDEAC) and CARICOM are similar to case C as regards the size of the integration area, although strictly speaking they could not be fully likened to it because of the relatively marked heterogeneity of their members. This, of course, would not prevent them from feeling the inhibitive effect on motivations produced by a small integration area. Two other groupings, the Central American Common Market and the East African Community, are probably among those whose area is 'sufficient' as the setting for an integration effort with all its motivations, but they are exposed, as industrial development opportunities are exploited, to the possibility of needing to enlarge the area in a fairly short space of time. Nor are they strictly assimilable to case C, because of their internal heterogeneity, but they do constitute an acceptable illustration of that particular situation as far as the size of the integration area is concerned.

Case D is undoubtedly the most interesting for the purposes of analysing the real circumstances of many processes of integration among developing countries. It is characterized by the introduction of the element of heterogeneity among the member countries, while the other conditions, which are favourable, remain unchanged. That is, case D will cover the possibilities of integration among heterogeneous countries with a relatively low degree of industrial development and of relatively small size, and constituting in the aggregate a large integration area, equalling or exceeding the 'required' dimensions. Except for the heterogeneity factor, the conditions would be favourable for broad-based integration in depth.

In this set-up we shall see how striking is the effect of heterogeneity in the degree of industrial development achieved. All the countries that in this respect are in an inferior position in relation to one or more members of the programme will be unwilling to move towards broad-based integration

in depth with a view to attaining either of the two objectives — industrial development or trade expansion—, at least in their relations with the larger countries. Ambivalence would undoubtedly exist: each country would be prepared for integration of this kind with the less developed countries but not with the larger ones. Yet unless integration were articulated by means of a network of bilateral treatments, which would certainly be possible but very difficult, the lack of coherence in motivations could have the general effect of leading, in relation to both objectives, to superficial forms of integration, on the whole restricted in their scope. This effect might be still more marked with respect to the expansion of trade, but the industrial development objective would suffer too.

To give an idea of the conflictive potentialities inherent in heterogeneity, it is useful to point out the effects of this divergence on instrumental options. While the larger and industrially more developed countries will prefer the distribution of activities to be left to the market mechanism, and will want the least possible institutional interference with that mechanism, the weaker countries will naturally take up the opposite position, advocating deliberate distribution of activities and maximum institutional interference in the market. There can be no way out of the conflict, in default of the solutions to which we shall shortly refer, other than recourse to a superficial or loose form of integration, either by the express intention of the treaties or by the tacit method of non-implementation, not to mention the possibilities of disruption.

In conclusion, even though all the other circumstances may be favourable, including political motivation and bargaining capacity, the mere existence of this heterogeneity among the countries will mean that the integration patterns adopted are superficial and loose. But in this instance, in contradistinction to cases B and C, it is possible to cancel out or at least to attenuate the effects of heterogeneity by introducing elements to

offset the relative weakness of the smaller countries — namely, policy instruments, to which we shall be referring presently. For the moment it is of interest to point out that if this compensation is satisfactorily accorded and is acceptable to all, integration may be thoroughgoing and extensive in its objectives, especially as regards the change in industrial structure, for which favourable circumstances would be ensured and greater intensity of motivations would exist. The biggest difficulty lies in devising an effective compensation mechanism and getting the parties to accept it. This acceptance is undoubtedly influenced by the intensity of the economic motivations of the participants, but the importance of political considerations or motivations should not be overlooked.

In describing the integration movements of the developing world mention has already been made of the policies whereby it has been sought to compensate the situation of the weaker countries. Generally speaking, the tendency has been to apply a series of preferential tariff or tax treatments, and to grant advantages in respect of services, income redistribution and flows of capital. All these methods have failed to fulfill their function as compensatory mechanisms, and the conflicts have been maintained or renewed. The only policy that could have been an efficacious means of attenuating the effect of heterogeneity on the central motivation for integration — industrial change— would be direct distribution of the new integration industries among the member countries, keeping their allocation apart from the operation of the market. Almost of the integration treaties have recognized this, but only in the Andean Group, with its industrial programming, has it been possible to implement such a policy systematically and effectively enough, given the unwillingness of the more powerful countries to accept limitations of this kind.

Of course, the mere existence of a compensatory mechanism like that described, which implies a deliberate allocation

of resources and, in the last analysis, the operation of a communal planning organ, introduces one more factor of complexity into integration policy and institutions, even if it is much simpler than the industrial programming of the Andean Group. At all events, it is necessary not only to use the whole arsenal of instruments for the opening-up of markets and the harmonization of policies which integration in depth requires, but also to establish planning systems, which may vary in breadth of scope and fullness of detail, but which have to meet inevitably exigent technical and political requisites.

If the concepts are used with a certain amount of latitude, there are several integration movements in the developing world which might be considered similar to case D. One has already been cited—the Andean Group—and others that could be added are the Central American Common Market and the East African Community, as long as the area remains 'sufficient', as well as the Economic Community of West African States (ECOWAS). As already stated, out of all these only one seems to have found a mechanism to counterbalance heterogeneity which up to now appears to be efficacious. One of the reasons why the East African Community is moribund lies in its failure to put this mechanism into practice. It is to be hoped that the other two will hit upon methods of compensation appropriate to their own circumstances.

To finish with this subject and, in particular, with the analysis of case D, it seems useful to point out that it will not always be possible to find a compensatory mechanism which is functional and effective, and, therefore, satisfactory to the smaller countries. If the differences between the member countries of an integration programme are very great, not even a communal programming mechanism of broad scope will be able in all cases to ensure a satisfactory distribution of activities, because, *inter alia*, many of the opportunities that integration would afford for

the smaller countries will have been already snapped up by the larger ones, thanks to their degree of development itself. A situation like this no longer strictly corresponds to case D, in which it is assumed that the countries are heterogeneous but relatively small.

If there were great differences in the degree of development and in the size of the countries, that is, if one more condition than in case D were altered, we might speak of a case E, which would exclude by definition the possibility of establishing effective and satisfactory compensation mechanisms. The result would simply be that the requirements for viable integration were absent. If this position were reached for political reasons, the most that could be hoped for would be a superficial and restricted linkage, more or less on the same lines as in case D, without the intervention of programming.

It is interesting to note that if the inter-country differences in respect of industrial development and market size reach extremes, the real and psychological effect may eventually cut off the weaker countries entirely from all possibility of availing themselves of integration to change their industrial structure. In such circumstances, not only is integration limited in its scope, but it becomes unacceptable to these latter countries and, therefore, completely non-viable. This case E, in which conditions of extreme divergence occur, recalls the classical model of world market integration through free trade, and there is nothing surprising in its not being regarded as a valid option for developing countries.

Other cases might be analysed, in which, as in case E, more than one of the favourable conditions are simultaneously reversed. The consequence is that market integration is made increasingly difficult. For the purposes of the present paper, however, the cases examined will suffice.

To sum up, it may be affirmed that only in two of these cases, A and D, is an integration programme viable which would be at once profound and broad in relation to

its two economic objectives, in particular that of industrial development. In case D, if the process is to have these characteristics, a mechanism to offset the effects of heterogeneity would be required. Without it, this case too would be unfavourable to such integration.

All other possible combinations, inasmuch as they eliminate more than one of the favourable conditions, culminate, of course, in situations even less propitious for integration, although that does not mean that they preclude attempts at co-operation and even, in some circumstances, at integration, if this is confined to fragmentary undertakings of a superficial character. Unquestionably, however, authentic economic integration is not viable for any and every grouping of countries, and its characteristics and patterns cannot be identical in all circumstances.

A useful point to note is that, as in case D, the unfavourable situations are not always irremediable, and if the motivations for integration persist, it is possible to suppose that the solutions found may serve as intermediate stages in a gradual approach towards more profound and broader forms of integration. For example, if the limiting factor is the size of the integration area—which is of particular importance for the industrial development objective—, this limitation can always be overcome by incorporating new members or through fusion with other integration movements.²⁴ If the obstacle is heterogeneity, and it has not been possible to mitigate the effects by means of compensatory treatment, a more homogeneous ambit may feasibly be chosen in order to move towards broader integration in greater depth, as has happened in the case of the Andean Group within ALALC. Integration in this more homogeneous, albeit more restricted, sphere of action can be

viewed in this instance as an intermediate stage on the way to fulfilment of the original intention, which will probably become possible in the future because heterogeneity has been reduced by virtue of this intermediate integration. In short, if the necessary motivations exist, the obstacles created by the factual circumstances in which integration has to work are milestones marking the successive stages on a road along which it is feasible to journey gradually towards closer and more satisfactory relationships.

The only factors that cannot be modified by such means are the features of a country's economic structure which influence the intensity of its motivations. In the case of countries with a relatively high degree of industrial development and dimensions close to those 'required', conditions are not favourable for comprehensive integration in depth. Only the weight carried by motivations of a different kind, political in the broadest sense of the word, such as those emanating from the desire to increase bargaining capacity or meet geopolitical needs, could induce in such countries an attitude open to ambitious integration agreements, and even then it is doubtful whether results will match intentions. There is no good reason to suppose, however, that this special situation of the bigger countries may not alter in the course of time. The probable enlargement of the size which we have called 'required', in consequence of technological progress in a world which demands steadily increasing scales of activity, may in the future bring about changes in the intensity of motivations even in the larger countries: a fact which must be taken into account in contemplating this succession of possible stages in an integration effort which aims at climbing progressively higher within a continuing process.

²⁴An increase in the number of members cannot but carry certain implications for the functionality of the process. Basically, it makes negotiations a more

arduous task and may considerably complicate administration. However, no general rule can be laid down in this respect.

V

Other differences in economic structure and their implications for integration

In the preceding section consideration was given to only one of the differences of structure which are significant for economic integration: the degree of industrial development attained. It is possibly the most important because it lies at the very root of the decision to seek integration, but it is not the only one, as we had occasion to note in describing the problems of the developing countries' integration groupings. A number of other features of the evolution of a national economy may give rise to other differences in structure which also influence integration, and which are enumerated below in a list which makes no claim to be exhaustive.²⁵

(a) Differences in the structure of foreign trade originating in:

- (i) the structure of traditional exports and the nature of their markets;
- (ii) the degree of diversification of exports, especially in respect of industrial products;
- (iii) the degree of dependence upon imports for supplies of foodstuffs and intermediate products;

(b) Differences in direct State participation in economic production and distribution;

(c) Differences in social structure and social policies, especially in relation to the system of ownership of the factors of production, management of enterprises and income distribution;

(d) Differences in rates of inflation

(when the processes concerned are deep-rooted and the disparities are considerable).

Even though the heterogeneity deriving from these characteristics does not affect the decision in favour of integration in the same way as that discussed in the preceding section, it does influence the possibilities of harmonizing or reconciling policies which, from the instrumental standpoint, serve to determine the new economic space. In this connexion, its importance, in the long run, equals or exceeds that of the opening-up of the space in question through the liberalization of trade, which, in any event, also constitutes a type of harmonization of policies.

As was previously noted, the possibilities of reconciliation are limited, at least temporarily, by these differences in structure which cannot be disregarded without casting doubt on the whole feasibility of the process. (Several relevant examples were cited earlier which need not be repeated here.) When this is the case, integration must seek new instruments, i.e., to use the terminology of the preceding section, compensation mechanisms fitted to overcome the effects of this form of heterogeneity. A good example of such situations is that resulting from the activities of State production or marketing agencies, which often bypass, for what may be perfectly legitimate reasons, cost and price considerations, and, to that extent, invalidate the operation of the usual trade liberalization mechanisms. The way to harmonization would not consist, in normal circumstances, in abolishing State trading agencies or relegating them to a marginal position, because this would mean subordinating the decision to follow a political model to integration requirements, a demand that cannot ordinarily be made. The only possibility of resolving such a

²⁵The list does not include differences in treatment of foreign investment—an extremely important matter in any integration movement—because, as a general rule, in the sector for which the process is of most interest, i.e., manufacturing industry, such treatment is not determined by structural features, and there is a possibility of choosing between options either more or less favourable to integration.

problem lies in attempting to harmonize State purchasing policies by means of a specific instrument, which would be a new item in the arsenal of integration policies. The East African Community formulated an agreement on this issue which could not afterwards be ratified. In default of this or some other mode of reconciliation of the relevant policies, in such a situation there is nothing to be done but tacitly to accept the fact that at least part of the trade concerned escapes the action of the liberalization mechanism.

Looked at in this light, economic integration among developing countries becomes a matter that calls for a new and imaginative outlook. In the first place, in specific groupings economic integration

may not be viable, and the analysis should provide some basis for a realistic appraisal of the possibilities. Furthermore, there is room for many different patterns of integration, as regards both objectives and instruments, and the structural conditions of the grouping and of its member countries should serve as a guide for choosing the most appropriate of these. Admittedly, the decision to seek integration is primarily a political one, and what is known as the political will may propose much more than seems reasonably viable. But the experience of the developing world suggests that never so far has the political will managed to override the economic realities of the groupings, when they have not been taken into account from the outset in the integration formula.

VI

Intentions and realities: some conclusions respecting the errors in the conceptual basis of ALALC

The conclusions to which the analysis presented in the last three sections leads cannot be rigidly or indiscriminately applied to real integration phenomena in order to establish the patterns suited to them and issue a final pronouncement on their viability. They are judgements based on simplifications of the complex fact of integration, and their usefulness depends upon the discretion with which they are used as a method of analysis of specific situations; as a method, this has the virtue of highlighting the probable origin of some of the more serious problems to which the process may be exposed. The importance which may attach to such problems in each individual case, the complexity with which they are invested by the action of other variables not taken into account in the analysis, and the influence which may be exerted upon them by specific economic or political circumstances, are facts which can only be evaluated through observation of the characteristics of each integration programme.

Despite all these limitations, the method of analysis suggested serves to underline certain aspects usually neglected in integration studies. In the integration theory that falls within the framework of the classical theory of international trade, the emphasis has hitherto been placed on the analysis of trade benefits. The key questions in this connexion have centred upon the advantages or disadvantages of a spatially limited integration, whether in a context of free trade or of national protectionist policies. Formulated in static or comparatively static terms, they are divorced from attempts to analyse economic integration in the framework of a theory of economic development. Even in this case, integration has been viewed exclusively as a policy instrument which must contribute to the attainment of certain objectives —such as industrialization, increased efficiency in activities, power to negotiate with third parties—, and insufficient consideration has been given to the structure and characteristics of integration

groupings, in so far as these phenomena affect their capacity to achieve such ends and to maintain a distribution of costs and benefits which will make for the stability of the integrated society.

It is of interest to note that some of these interpretations of the role of integration in the development of the poorer countries are in line with a conception of the international economy which, in contrast to classical theory, recognizes the determining function of differences in economic and political power, cases in point being the concept of centre-periphery relations formulated by CEPAL, or the theses of *l'échange inégal*. Nevertheless, for analytical purposes the subject of integration among developing countries has generally been tackled without reference to the possible implications of the existence of various forms of heterogeneity among the participants, a circumstance which is in practice, as has been shown, the source of some of the major integration problems. These disparities have been examined only as a phenomenon which calls for specific instruments—preferential treatments—, without full exploration of all their repercussions on the viability, objectives and patterns of integration.

It is the aim of the present paper to awaken interest in these questions and to do something towards beginning to fill these gaps in the conceptions of integration. It makes no claim to supersede the two analytical approaches mentioned above. Within their own hypotheses, they are valid formulations of partial aspects of the integration phenomenon. In these pages an attempt has been made to look at another of its facets, with the intention of finding a body of criteria in the light of which some of the questions of most importance for the construction of economic integration can be more realistically studied.

ALALC may afford an interesting illustration of the ideas expounded. In sections I and II of the present paper the conceptions that prevailed in the constitution of ALALC were described, together with their evolu-

tion from the original CEPAL theses. The time has now come to ask ourselves how far the objectives set up corresponded to what might reasonably be expected of this integration movement, and how far the pattern of the formula was appropriate to the characteristics of the grouping.

This is not the place to describe in details the ups and downs of ALALC's existence. In earlier pages brief reference was made to the problems that it has had to face. To avoid dwelling too long on the subject, we will assume that the basic features of its evolution are already familiar. Suffice it to point out here that after a short period of progress along the lines originally projected, it soon sank into almost total stagnation, which is now threatening to become actual regression. The establishment of the free-trade area has proved impracticable, and since the mid-1960s the negotiations have done nothing more than marginally enlarge the list of concessions. In practice, ALALC has never got beyond a preferential area, and that not even at a level which can be described as high. These preferences are still maintained, and trade has expanded in absolute figures, but since 1970 it has been obvious that the share of the regional market in total Latin American exports is declining, even in the case of manufactures, where its importance is still considerable, but is decreasing in relative terms.²⁶

Undeniably, the creation of ALALC was a decisive step in encouraging exports of manufactures from Latin America. In this sense, its economic potential did produce effects, despite the atrophy suffered by the liberalization programme. The expansion, nevertheless, was concentrated in a few countries, with a sequel of stresses and conflicts which has reduced it to the present stagnation. In 1974, in face of the impos-

²⁶CEPAL, "The economic and social development and external relations of Latin America" (E/CEPAL/1024/Rev. 1), 14 June 1977, p. 263.

sibility of attaining the objectives of the original ALALC agreement, it was decided to begin negotiations with a view to restructuring the Treaty, but the divergence of positions was so marked, that it was impossible to reach a consensus. ALALC has continued to function in a languid fashion, still applying the system of concessions which had been arrived at when it came to a halt, but its deterioration will obviously be aggravated unless it manages to float itself fairly quickly off the reef.

How far do the characteristics and the internal structure of ALALC account for these vicissitudes? One of its features favourable to broad-based integration in depth as previously defined is the size of the integration area, which is much bigger than that of the other groupings of this kind in the developing world.²⁷ On the other hand, in the light of the criteria laid down before, the marked heterogeneity of its member countries is prejudicial to ALALC. They were and are strongly differentiated, both in the degree of industrial development attained and in their economic size, as well as in other structural features. The data on the population and national product of the member countries listed in the annex illustrate the wide disparities between them — disparities which were bound to be reflected in a defensive attitude on the part of the medium-sized and small countries *vis-à-vis* the three larger ones. As already stated, the latter were the chief beneficiaries of the expansion of intra-regional exports, and almost the only countries capable of taking advantage of the complementarity agreements, which constituted the system set up for negotiating integration industry.

²⁷If the total gross national product is used as an indicator, we shall see that ALALC's was 260,000 million dollars, while that of the grouping next in size, the Arab Economic Unity Council, amounted to 78,000 million, according to figures for 1976 taken from *World Bank Atlas: Population, Per Capita Product and Growth Rates*.

In 1969 a group of medium-sized and small ALALC countries established the Andean Group, as a subregional grouping. The basic motivation was to promote integration in greater depth without the dominant influence of the three larger countries: Brazil, Argentina and Mexico. The Cartagena Agreement, which brought the Andean Group into being, was declared compatible with ALALC, but undoubtedly, for the time being at least and while the Group was being consolidated, its existence helped to make the progress of the negotiations yet more difficult.

The distribution of costs and benefits is not the only sphere in which the heterogeneity of the member countries has affected ALALC. The very timidity of the objectives of the Treaty, which was carried so far as almost entirely to omit from it any provision on harmonization of policies, reflects the difficulty of uniting countries with such different characteristics in an integration movement. Not even the little that was included in respect of policies—the special provisions concerning agriculture, which were primarily a régime to protect domestic production— could be fully implemented, for lack of agreement on one of its basic mechanisms. It is easy to imagine the inhibitive effect that must certainly have been produced by differences such as those existing between rates of inflation, structure of foreign trade, etc. The joint result was that in the end even the apparently unambitious goals of the original Treaty could not be reached. ALALC is, therefore, a good example of an integration system whose fundamental problem —although not the only one— is the combination of pressures deriving from the heterogeneity of the member countries in size and structure.

In accordance with the scheme presented, and confining ourselves for the time being to the heterogeneity attributable to differences in degrees of industrial development and in economic size, marked contrasts were to be expected in the ALALC countries' motivations for integration. Given

their relative position within the grouping the larger and industrially more advanced countries were logically bound to be motivated much more by the expansion of trade than by a change in industrial structure, whereas, conversely, the smaller and industrially less developed members were necessarily prompted more strongly by the industrial change motivation and much less by that of trade expansion. This difference made itself apparent during the negotiations when the countries referred to what they were seeking through integration, and very strikingly in the propositions of the larger countries, particularly Brazil and Argentina.

Strictly speaking, this lack of coherence in the intensity and ranking of motivations ought to have been manifested in the selection of integration patterns and instrumental options. The larger countries followed their own logical line: hence their persistent advocacy of a competitive market, based on a full liberalization of trade which would allow the price mechanism free play, together with all the implications of those principles as regards the other characteristics of the formula. But matters were different with the medium-sized and small countries, which during the negotiations, as has been shown, accepted with apparent willingness not only the principle of free competition, but also the omission of any means of resorting to allocation of integration industries. They contented themselves with luke-warm insistence on preferential treatment, in any event very limited. This attitude changed some years later with experience of the process; but by that time it was impossible to go back on the principles accepted, and no real success was achieved in strengthening the preferential treatment. In fact, these topics were the core of the deliberations which were recently conducted in compliance with the Caracas Protocol, and in which, as has been pointed out, no consensus could be reached.

In addition to this basic problem deriving from heterogeneity, difficulties in harmonizing policies arose out of other dif-

ferences in economic structure, of which an example has already been given. It should be noted, however, that the early interruption of the ALALC liberalization programme detracted from the urgency of the need to harmonize policies and kept below the surface the most serious problems of this kind, i.e., those relating to harmonization of exchange policies.

To sum up, ALALC was and is an integration grouping which, in simplified terms, displayed only one of the conditions we have called favourable to integration: the size of the new economic space. The marked differences between its member countries meant that their demands upon the process were different, and that same heterogeneity was bound to lead them sooner or later to prefer not only different but actually antagonistic instrumental patterns, as did indeed happen.

Clearly, a group with these characteristics, which had established as its ultimate objective a free-trade area, i.e., full liberalization for 'substantially all' trade,²⁸ needed, if it was to advance without increasingly serious conflicts, a singularly efficacious system of differential or preferential treatment, or, in other words, what we have called an effective mechanism to compensate the heterogeneity among the member countries.

Experience shows that the mechanism chosen by ALALC was far from possessing such efficacy. It has been feeble in its effects in relation to the relatively less developed countries, and non-existent for the countries of medium size. Mention has already been made of the concentration of trade flows; the medium-sized and small countries have not been excluded from participating in them, but they have done so in conditions which both quantitatively and qualitatively — i.e., as regards categories of goods — are clearly inferior to those enjoyed by the three larger

²⁸At least 80% of trade, according to the GATT interpretation at the time when ALALC was set up.

countries. This situation partly reflects the minimal degree in which they have benefited by the integration industries whose creation was the primary reason for their accession to ALALC.

There is no need to expatiate on the scant effect of the preferential system, which has been one of the touchstones of the analyses of the Association. The medium-sized countries—with insufficient markets—have not really received any kind of special treatment. The relatively less developed countries found themselves provided with a mechanism which could have been useful if they had possessed much greater bargaining capacity than they were really in a position to exercise; it was this that constituted, in point of fact, the logical flaw, the *petitio principii*, which invalidated the mechanism from its very foundations. Out of the long list of non-extensive special concessions, very few have been really put to use, and, worse still, those of any significance have been even fewer. In many cases, the concessions relate to products of little economic importance with a low level of value added. In others, a concession which might have been meaningful on account of the product concerned is confined to characteristics or qualities of that product which virtually annul it. Lastly, concessions are accorded to complex industrial products manufactured on a fair scale, but in some instances these are goods which in practice cannot be produced, and in others they are produced as isolated items, albeit the technical and economic characteristics of the activities in question call for the manufacture of ranges of products.

In short, the essential instrument of the preferential system—the only one which really existed, and which, as has now been shown, is constituted by the special list of non-extensive concessions—has been unable to fulfil its function efficiently. The other advantages, whose application in each specific case was left to the discretion of the parties, were never turned to account in practice.

Despite subsequent attempts at rectification, of which resolutions 74 and 101 are the outcome, the system has undergone no significant change, nor has it been possible to articulate the joint supporting action envisaged in resolution 101. In addition, since nothing was done to establish a more or less automatic mechanism to ensure implementation of the principle of reciprocity—the CEPAL proposition—, ALALC has lacked the ultimate stabilizing instrument which might have prevented the disequilibrium in the integration process from running to extremes.

This inefficacy of the compensation mechanism is almost exclusively due to the principles and conceptions by which its creation was governed. Where integration instruments are concerned, it is often the way they are put into practice that vitiate their function. That is not the case with the preferential treatment under discussion, whose weakness lies in the original ideas. What is more, the inefficiency of the compensation mechanism was latent from the very moment when the 'competitiveness' of the market was almost unconditionally accepted as the guiding principle for the whole functioning of the integration programme. The interpretation of this 'competitiveness' conducted, as has been shown, to denial of the possibility of restricting competition in certain 'allocated' activities. And, furthermore, it led to postulations which did not necessarily derive from the guiding principle, such as those of avoiding automatic mechanisms as far as possible, rejecting rules whereby the parties' exercise of bargaining power could be in any way delimited to serve the joint interest, and reducing the communal organs' capacity for control and initiative. This meant that preferential treatment, like the whole operation of the integration movement, was left subject to a continuous process of negotiation, in which, of course, the weaker parties were permanently at a disadvantage.

In CEPAL's theses respecting differential treatment a distinction was drawn

between categories of goods and of countries. If that distinction had been accepted, there would have been at least a possibility of establishing from the outset some limitation of the parties' power of negotiation with respect to the way in which the market-opening mechanisms should be applied. Much the same thing would have been achieved if the idea —also one of CEPAL's— of including some automatic safeguard of reciprocity had been taken up. The discussion of the topic, conceptually dominated by the larger countries, left the preferential system stripped of all such elements, as alien and dysfunctional interpolations in a framework governed exclusively by the bargaining capacity of each of the parties.

This does not mean that if the said CEPAL proposals had found a place in the final formula, the differential treatment would have been efficacious. The truth is, as experience has shown, that even with those additions, a mechanism based on the special concessions plus a few defensive preferences could in any event have done little to mitigate the consequences of the marked heterogeneity in the structure of ALALC. But at least there would have been some basis for reacting in face of the disequilibria, seeking to improve the system through the classification of goods and countries, and making further progress with the liberalization programme. Given the shape in which the preferential treatment was finally incorporated in the formula, the outcome was bound to be early frustration and the ensuing stagnation.

To sum up, it may be asserted that in this sense the evolution of ideas during the ALALC negotiations led to a contradictory result: on the one hand the objective aimed at became more ambitious, since the preferential area was superseded by the free-trade area, while at the same time the compensation mechanism was weakened. Obviously, the two things were mutually exclusive.

It would not be fair, however, to blame any of the protagonists of this frustrated creation of a Latin American common market

for the mistakes committed when the compensation mechanism was devised. Knowledge of the subject of integration —the 'state of the arts' which prevailed when ALALC was negotiated— was really rudimentary, especially with respect to integration among developing countries, of which there was simply no experience. CEPAL's ideas, particularly the concept of special concessions, were already introducing innovations in this field, as has been pointed out, and this is still more striking in the case of the Central American Common Market, where CEPAL propounded theses which were to be the seed of what was afterwards called industrial programming. Nevertheless, the differential treatment was neither appropriate nor sufficient in the Central American Common Market, and still less so in ALALC and it is impossible to impute the fact solely or even chiefly to a distortion of ideas during the negotiations. It was the conceptions currently prevailing that carried the brunt of the responsibility, and there is no better proof of this than the very attitude of the weaker countries in accepting, almost willingly, the whole set of conditioning factors which in practice made it impossible for the compensation mechanism to function effectively. When they agreed to share with the larger countries this interpretation *à l'outrance* of the principle of 'free competition' in the market, the result was the disappearance of negotiation conditions which, probably at least, could have led to the construction of a formula for more valid compensation mechanisms.²⁹

The attitude of the larger countries had, of course, a decisive influence on the structuring of the market in conformity with the principles described; a contributory part was also played by GATT and the United States Government. These positions were naturally determined by the parties' own

²⁹The author can make this assertion without fear of injustice, since he participated, as representative of his country, in some of the rounds of the negotiation in question.

interests; but doubtless, neither were they unaffected by serious mistakes, also due to inexperience, in the evaluation of the possible gravity of the problems involved. Probably, *inter alia*, the degree of concentration of benefits which the formula would entail was underestimated, or, even more, the extent to which the reaction of those that were dissatisfied, among them the weaker countries, might hamstring the whole process. In combination with their own interests, this lack of knowledge and experience may also account for the political caginess of the larger countries *vis-à-vis* the demands of the rest—not very pressing either—to the effect that stronger equilibratory elements should be introduced into the system.

For all these reasons, it might be said that when ALALC was set up with the characteristics that it was given, neither the knowledge nor the political will existed that were needed to devise and put into effect a mechanism to compensate the heterogeneity of the parties which was adequate for that specific integration formula. Such a mechanism, given the existing differences, would have had to incorporate a series of powerful instruments, largely handled by communal organs. In the records of the negotiations there is no sign that they were ever even thought of, and undoubtedly, if they had been mentioned, they would not have been accepted as a whole by any of the participants.

Today, in view of this fact, hindsight allows the suggestion to be hazarded that there were two elements in the evolution of ideas which really sealed the fate of the Association. These were:

- (i) The rejection of the exceptions to the most-favoured-nation clause which might have allowed the existence of subregional integration groupings; and
- (ii) the alteration of the objective of the formula from a preferential area to a free-trade area.

The first of these formed part of CEPAL's original conceptions; save for Central American integration, CEPAL considered any kind of subregional 'exclusivism' within the global formula inadvisable and dangerous. This thesis was generally accepted throughout the negotiations and, in the end, was incorporated in the Montevideo Treaty. Consequently—given the difficulties of creating a compensation mechanism—the formula was deprived of the only effective means it might have had of lessening the problems caused by heterogeneity. Owing to the pressure exerted by the countries forming the present Andean Group, flexibility in this direction had to be accepted later on, unfortunately, however, only when it was too late, ALALC having already become a prey to stagnation. If it had been allowed from the outset, the programme would have had to be different in its instruments, deadlines and other aspects.

The second element imposes greater demands on the formula, with the choice of a free-trade area as an objective; this is the loosest pattern in the traditional typology of integration, but in any event it implies a full opening-up of markets. Its very flexibility with regard to the absence of a common external tariff and other provisions for the harmonization of policies, although in some respects it allayed the misgivings of the weaker countries, left, on the other hand, an even broader field to the mercy of the bargaining capacity of the parties. All it did, at bottom, was to deepen the uncertainty and mistrust of those with the least bargaining power. Accordingly, it would seem that the decisive juncture in the evolution of ideas occurred when the idea matured of abandoning the preferential area objective and choosing a free-trade area as the appropriate pattern, because of its greater formal richness and its compatibility with the exceptions allowed by GATT. According to the documents, as was remarked earlier, this happened at the time of the Consultations on Trade Policy with the participation of experts from the countries of the southern

zone of South America. Up to then CEPAL's preferential area thesis had prevailed; and while it is not certain that a compensation mechanism adequate for such a preferential area could have been constructed, succeeding events leave no room for doubt that to do so was not feasible for the free-trade area. This circumstance, therefore, can well be described as decisive, unfortunately for the worse.

Incidentally, the aforesaid change of objective, in conjunction with the aim of excluding subregional groupings, was also responsible for the shelving of the proposition that the market should be extended to include the whole of Latin America. The more stringent demands of the formula inevitably restricted the geographical scope of the grouping. It would have been very difficult for all the Latin American countries to have taken part in it from the outset; but probably most of them would have done so if it had been a matter of a preferential area, which would have allowed subregional linkages. An ALALC with those characteristics would undoubtedly have attained much greater political significance than the grouping that finally came into being. The consequent increase in heterogeneity, from a functional standpoint, would have had only marginal importance in view of the complexity that ALALC displayed in any case.

Perhaps this article is overstepping its own limits in concluding with conjectures on what ALALC might have been if a different path had been chosen. Only some of the Association's problems have been analysed here, and, in point of fact, it has also suffered from the action of a variety of factors and circumstances, like any other enterprise of such complexity. At the risk of oversimplification, the author deemed it preferable to single out the problems deriving from heterogeneity, because he feels them to be of paramount importance in accounting for the evolution of the movement. Aware of the fragility of any conjecture, he wanted at all events to explore the viability of the

alternative structure proposed for ALALC at the start: the preferential area. And the analysis has led to the conclusion that it combined conditions which would have made it more feasible than the free-trade area that finally took its place. This opinion is not based on the *a posteriori* evidence of the actual evolution of ALALC, which in fact is now nothing more than a preferential area. It is based on the belief that the choice, at the right time, of an alternative of that kind would have made it possible to accommodate special situations with much greater flexibility, and to establish an efficacious compensation mechanism, without the necessity of requiring countries to adopt decisions that technically and politically they were not prepared to take. Such a preferential area as that could have been a living political reality, that is, something very different from the preferential area that ALALC has come to be by defect.

That was not, of course, the only alternative. For example, it would also have been possible to follow the path of the free-trade area, but choosing a much more gradual process, allowing of subregionalization and progress by stages with much longer deadlines. As CEPAL pointed out in the document in which it commented upon the results of the sessions of the Working Group on a Latin American Regional Market: "This final objective must be constantly borne in mind, even though it can be reached only by gradual stages. In the first of these, aspirations would have to be confined to partial but attainable targets; and would necessarily have to be the patiently-nurtured issue of a policy conceived on realistic lines and implemented with firmness of purpose".(5)

In any case, these references to valid options, besides being up to a point illustrations of the method, have found a place in the present paper, because the future of Latin American integration is still a moot question, and one which is becoming increasingly urgent.

The author would like to feel that this article has represented some contribution to research on the new paths that integration should follow. Renovation will be an unavoidable necessity in almost all the Latin American integration movements, and for ALALC it is an urgent one in addition. These pages make no claim to suggest such paths. The analysis of ALALC which has been put forward here refers to the circumstances

prevailing when it was established, no to those existing today, which would have to be studied for that express purpose. But these reflections may be useful in pointing out certain requisites for action, to which careful thought should be given if the decision to seek integration is to be imbued with the blend of realism and boldness that it always requires.

Annex

ECONOMIC INTEGRATION GROUPINGS IN THE DEVELOPING WORLD^a

Country	Population ^b (thousands of inhabitants)	Gross national product ^c	
		Total (millions of dollars)	Per capita (dollars)
<i>1. Latin American Free-Trade Association (ALALC)</i>			
Argentina	24 646	37 380	1 520
Brazil	103 981	95 920	920
Chile	10 408	8 680	830
Mexico	57 899	63 050	1 090
Paraguay	2 484	1 270	510
Uruguay	2 754	3 290	1 190
<i>Andean Group</i>			
Bolivia	5 470	1 550	280
Colombia	23 125	11 640	500
Ecuador	6 952	3 310	480
Peru	14 953	11 110	740
Venezuela	11 632	22 780	1 960
<i>2. Central American Common Market (MCCA)</i>			
Costa Rica	1 921	1 610	840
El Salvador	3 887	1 590	410
Guatemala	5 284	3 060	580
Honduras	2 806	950	340
Nicaragua	2 041	1 360	670

Annex (Cont.)

Country	Population ^b (thousands of inhabitants)	Gross national product ^c	
		Total (millions of dollars)	Per capita (dollars)
<i>3. Arab Economic Unity Council (CAEU)</i>			
United Arab Emirates	656	6 870	10 480
Iraq	11 120	14 260	1 280
Jordan	2 709	1 240	460
Kuwait	980	11 280	11 510
Morocco	16 680	7 890	470
Mauritania	1 322	410	310
Arab Republic of Egypt	37 096	11 550	310
Arab Republic of Libya	2 442	12 400	5 080
Arab Republic of Syria	7 409	4 870	660
Arab Republic of Yemen	6 471	1 380	210
The People's Democratic Republic of Yemen	1 677	410	240
Somalia	9 180	320	100
Sudan	15 550	4 510	290
<i>4. Central African Customs and Economic Union (UDEAC)</i>			
Congo	1 300	610	470
Gabon	528	1 030	1 960
Central African Empire	1 748	370	210
United Republic of Cameroon	7 120	1 760	250
<i>5. East African Community (EAC)</i>			
Kenya	12 910	2 610	200
United Republic of Tanzania	14 351	2 320	160
Uganda	11 186	2 700	240
<i>6. Caribbean Community (CARICOM)</i>			
Antigua	71	40	540
Barbados	241	290	1 200
Belize	136	90	690
Dominica	75	30	410
Grenada	108	40	330
Guyana	791	390	500
Jamaica	2 008	2 390	1 190
Montserrat	—	—	—
St. Kitt-Nevis-Anguilla	46	20	500
St. Lucia	108	60	530
St. Vincent	91	30	340
Trinidad and Tobago	1 070	1 810	1 700

Annex (Cont.)

Country	Population ^b (thousands of inhabitants)	Gross national product ^c	
		Total (millions of dollars)	Per capita (dollars)
<i>7. Economic Community of West African States (ECOWAS)</i>			
Upper Volta	5 760	520	90
Benin	3 027	370	120
Ivory Coast	6 387	2 930	460
Gambia	506	90	170
Ghana	9 610	4 130	430
Guinea	5 390	630	120
Guinea-Bissau	520	210	390
Liberia	1 500	580	390
Mali	5 560	450	80
Mauritania	1 290	380	290
Niger	4 480	540	120
Nigeria	73 044	20 810	280
Senegal	4 869	1 590	330
Sierra Leone	2 911	540	190
Togo	2 176	550	250

^aWorld Bank, *World Bank Atlas: Population, Per Capita Product, and Growth Rates*, 1976.

^bIn this annex the population figures given are for mid-1974.

^cThe gross national product data appearing in this annex are given at 1974 market prices.