

CEPAL

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Notes and explanation of symbols

The following symbols are used in tables in the *Review*:

Three dots (...) indicate that data are not available or are not separately reported.

A dash (—) indicates that the amount is nil or negligible.

A blank space in a table means that the item in question is not applicable.

A minus sign (-) indicates a deficit or decrease, unless otherwise specified.

A point (.) is used to indicate decimals.

A slash (/) indicates a crop year or fiscal year, e.g., 1970/1971.

Use of a hyphen (-) between years, e.g., 1971-1973, indicates reference to the complete number of calendar years involved, including the beginning and end years.

Reference to "tons" mean metric tons, and to "dollars", United States dollars, unless otherwise stated.

Unless otherwise stated, references to annual rates of growth or variation signify compound annual rates.

Individual figures and percentages in tables do not necessarily add up to corresponding totals, because of rounding.

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Options for regional integration

*Eduardo Gana**
*Augusto Bermúdez***

This article analyses one of the fundamental categories of ECLAC thinking: the economic integration of Latin America and the Caribbean. It suggests a different approach to Latin American integration, taking into account past experiences and current circumstances within and outside the region. In accordance with this view, integration must become a political strategy for Latin Americans. This would mean involving the largest possible number of social actors in the task, especially the democratic political community, thereby strengthening the possibility of bringing their democratic principles to fruition. Hence integration would become a part of national aspirations and political movements.

This concept seeks to overcome two obstacles of paramount importance that have affected integration in the past three decades, namely, the focus on trade on the one hand, and, on the other, the contradiction between changing national policies and the policies required by an integrated Latin America. The key purpose is to create real and permanent interdependencies among the countries of the region. If this goal is met, trade will be a symptom that these interdependencies exist and are being consolidated, as distinct from the impression given by indecisive, unstable efforts which easily bow under the stress produced by crises originating in the external sector.

The article addresses three issues—in the corresponding three chapters—which are to a large extent interrelated: the potentials and limitations of integration and co-operation; some recent initiatives; and policy, strategy and action proposals.

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I

Potentials and limitations of integration and co-operation

1. *Proposals and dilemmas*

Historically, subregional integration processes in Latin America and the Caribbean have arisen as a response to the problems of external constraint and the need to generate bases for a sustained, efficient development. In the nearly three decades that these initiatives have been under way, there has been a notable change in the economic, political and social structures of the countries of the region, but many of the dilemmas which caused those problems remain and have even intensified.

In the structure of Latin American exports, commodities continue to represent a high proportion—around 80% of the total—, and their prices, in relation to manufactures, are constantly deteriorating on international markets. Thus it becomes increasingly difficult to import the goods the region needs for its development and at the same time maintain a trade balance based on growing quantities of exports of commodities, since the upswing in their supply causes further reductions in their relative prices.

In recent years, this structural situation—which has been the lot of the region—has worsened and there are no signs of any improvement in the offing. Despite the longstanding debate on the validity of the phenomenon of deteriorating terms of trade of commodities compared to manufactures, there are few today who would still argue that it makes no difference to a country's development whether it exports one category of products or another.¹ Manufactures exports have become an

¹The verification of persistent deterioration in the terms of trade leads to admitting the need to promote the production and export of manufactures and the policies that favour them, such as differentiated tariffs, which protect final products more than their inputs.

explicit objective of the bulk of the foreign trade strategies used by developing countries.

At the same time, a restructuring of the international division of labour is taking shape. This is the result of the incorporation of micro-electronics and automation into the productive processes, revolutionary discoveries in the field of genetic engineering and other similar techniques. These real changes in the forms of production should set the direction for the coming transformations in the productive systems of Latin American and Caribbean countries. It should be added that technological changes contribute to depressing the prices of the region's raw materials for export, generating cheaper substitute products and reducing the physical content of inputs in finished products, through the "miniaturization" of most of their mechanical and, in particular, electronic components.

The heterogeneity of the Latin American and Caribbean countries and their dissimilar degrees of industrialization, mean that the strategies for adapting to these new conditions will be different as well. In certain cases, it will be enough to return to developing the productive system. In others, however, it will be necessary to apply more deep-seated corrective measures.

2. The potential role of economic integration

In the early days of integration, it was relatively simple to identify its role. The countries were just beginning the systematic development of their industrial apparatus, and hence almost no one questioned the need for industrialization. The size of domestic markets defined the type of productive activities which could be implanted autonomously and those which, owing to their economies of scale, exceeded national capacities.

Today, the size of manufacturing plants continues to play a decisive role in arriving at competitive costs in certain branches of the economy; however, the "gigantism"² which prevailed until the 1970s tends to be out-performed

²For example, blast furnaces in the iron and steel industry with an annual unit capacity of 3 to 4 million tons of cast iron, automated "transfer" equipment for mass production parts, for supertankers and bulk carriers of more than 300 000 tons.

by smaller, more versatile plants. The automobile industry is still an exception to this trend.

This does not mean that all countries, even under today's conditions, can agree to the establishment of industries such as iron and steel, petrochemicals, aluminium, some mass produced capital goods or advanced electronics. The main limiting factor resides in the technological and productive capability of the economy as a whole to strengthen manufacturing enterprises and give them the necessary support infrastructure. In general, there is no infrastructure in the countries of the region capable of sustaining autonomous development. The main deficiency lies in the scientific and technological system, and its capacity to collaborate in the continual modernization and transformation of the productive apparatus using technologies which involve mental ability, as opposed to unskilled labour.

Shifting from an international specialization based on labour-intensive activities to one with greater technological content is neither simple nor automatic. An increase in resources for scientific and technological development and innovation must be combined with a strong system for the training and advanced preparation of highly specialized personnel.

Traditionally, most of the labour-saving technological processes, and the automated equipment which performs a similar function, have been imported from the industrialized countries. This results in a wide occupational and balance-of-payments gap, in view of the high cost of these technologies and equipment and the fact that they displace labour. An expanded market, resulting from an effective integration process, can help create the conditions for a technological and productive development which is more in harmony with an active participation in the international economy. It can also permit joint investments that require broad bases of economic support. It is clear that integration does not guarantee success in a project of this sort, but it does make a task which would be nearly impossible if undertaken in isolation feasible for the great majority of nations.

In the complex framework of deep-rooted changes in the international economy — derived

above all from scientific and technological progress and the "internationalization" of productive processes—the notion of an expanded market differs from the traditional concept, in which expansion was primarily understood to be the result of multilateral tariff liberalization and the elimination of non-tariff barriers. Such an approach is inappropriate to the realities described. The expanded market is perceived as a way of closely intertwining the economies with their operators—whether public or private—, where the core element is the governments' capacity to co-operate in promoting various production schemes and shared investment initiatives. These include tariff relief mechanisms and the elimination of other trade barriers, but the central aspect is the creation of a solid, stable interdependence.

In this task, regional co-operation will become another essential factor. The scientific and technological development described involves forms of co-ordinated action which will strengthen the various country capacities and open the way to the generation and spread of appropriate technologies. In addition, co-operation will allow for the acquisition of certain technologies which are almost always marketed on the basis of monopolistic supplies, and where aggregate negotiating capacity can be a determining factor in obtaining them and establishing appropriate prices.

In short, the economic and productive evolution of recent years requires different understanding of integration and co-operation than in the past. Some instruments, especially those relating to tariffs, become relatively less important in this new understanding, as a more stable, overall economic interdependence is sought. Likewise, the heterogeneity of the region makes it necessary to move forward in various fields and through various mechanisms, or through subregional groups to collaborate on specific projects of common interest.

3. *The international function of regional unity*

In order to make it possible to develop an efficient, dynamic productive system, integration functions must be combined just as vigorously

with functions aiming at achieving a less vulnerable and dependent participation in the international economy. The international crisis of recent years has once again brought into focus that in international relations there has been a rise in the use of pressure and force as rules of coexistence. The protectionism of the developed countries, practised by the main trading partners of the region, makes it vital to create a negotiating capacity to neutralize the disastrous effects of these actions on the main export items.

Just as unity is a prerequisite for developing a strategy to modernize and vitalize the productive system, it is also a necessary condition for organizing and exercising an internationally credible, effective negotiating capacity. This assumes that industrialization, agricultural development and, in general, the development of the productive system—including related services—are based primarily on the regional or subregional market, depending on the case. The selection is not dogmatic. In the current state of the international economy, it corresponds to the conviction that it is more feasible for the region to take advantage of the prospects of joint domestic markets as a way of increasing national and regional autonomy, or in other words, heightening the degrees of freedom to choose a development strategy that permits greater control over resources and productive structures and qualitatively changes the way they are incorporated into the world economy.

4. *Obstacles to integration*

In the Latin American integration schemes—the Latin American Integration Association (ALADI), the Central American Common Market (CACM) and the Andean Group—the larger countries did not join ranks in support of common, long-term objectives and the most effective instruments and institutions for achieving them.

In LAFTA/ALADI, Argentina, Brazil and Mexico have gone through different stages in evaluating the importance of an effective integration process. It has been only recently that the Governments of Argentina and Brazil have shown a deeper commitment to creating a real economic interdependence between their

countries, with an initially bilateral orientation. The Andean Group, headed originally by Chile and Colombia, was disrupted by the withdrawal of Chile and the loss of conviction about the Group's true role in regional integration. It should be remembered that this scheme arose from the need to invigorate a process —LAFTA— that had begun to languish long before the end of its ten years of operation. Finally, the Central American Common Market —which achieved substantial trade development but which is currently involved in conflicts and serious tensions— has suffered grave setbacks, and the leadership exercised by the larger countries of the subregion has flagged.

Generally speaking, the governments' political backing of integration has been one of words rather than deeds. This explains why neither public sector operators nor State enterprises have become participants in this initiative. Private businessmen for their part, have been only marginally involved. Civil communities and their means of expression, including political parties, have not become committed to these processes either. Most of the various sectors of the community have been unable to see the advantages of integration. This is because enough progress has not been made on the issues that most directly benefit the general population, such as freedom of movement and access to work among the member countries of the same scheme, or on other conventions having a similar purpose, such as education and technical training, validation of diplomas, etc.

Aside from the need for leadership from the largest countries in each subregional scheme —and the fact that it is necessary to turn these processes into a national political strategy—, it would be advantageous for integration to be more selective and for the goals to be pinpointed clearly so as to choose the most appropriate instruments to meet the objectives.

Although tariffs are still important today in creating or diverting international trade flows, non-tariff restrictions, exchange rate parities, loans and financing mechanisms, State purchases, clearing arrangements, stipulated domestic remittances by transnational corporations and many other factors related to product quality, transport, marketing

techniques, etc., are also important. If the purpose of integration is to generate stable economic ties among the member countries of a scheme, it will be essential first to define the nature and closeness of the ties desired and then to adapt the instruments to that objective.

On the other hand, it should be noted that governments strongly resist making proposals for multilateral machinery. This is because it is difficult to specify long-term objectives, in view of the economic crisis, and because there is a tendency, for the same reason, to avoid making commitments that will be complicated to fulfil. Under current conditions, the dilemma between multilateralism and bilateralism is more theoretical than real. The vast majority of the governments of the region are in no position to assume the risks of complying with more wide-ranging obligations whose results are uncertain. This does not mean that subregional integration schemes should stop seeking the elements of collective union that are the very essence of their purpose.³

5. The benefits of integration

The subject of the costs and benefits of integration is certainly one of the most controversial and difficult to separate from a merely theoretical plane or from subjective assessments. The increase in trade relations —which, as mentioned above, was considerable until the onset of the economic crisis— was not homogeneous, and some countries had persistent trade imbalances with the other members of the same integration scheme. Likewise, trade protected by tariff preferences did not represent a very big share of trade within a scheme, except in the Central American Common Market, where tariff concessions operated more effectively. This meant that, in most cases, the diversion of trade to member countries did not entail higher costs for the importer, if the normal customs tariffs for third countries were applied to the goods. In ALADI it is estimated that, in 1985, only 33% of the trade was carried out under some tariff

³For more information on this subject, see ECLAC, "Multilateralismo y bilateralismo en la ALADI" (LC/R.564), Santiago, Chile, 9 February 1987.

preference system, which is equivalent to approximately 4.6% of its total international trade.

The costs and benefits of integration must be discussed in the context of the existing diverse strategies and institutional constraints. Thus, to the extent that countries are willing to support a given level of inefficient industrial or manufacturing production, it becomes clearer that a customs union among countries can serve to reduce the excess cost of industrial production among the members through three channels: comparative advantages within the region or the union, economies of scale in production and an increase in diversity for consumers. Whether society intrinsically values industrial protection or the existing power relations make protection an inevitable result of the political process is of little importance. What is really important is that, if industrial protection and inefficiency are inevitable, then a customs union may very well reduce the costs of this protection.⁴

It should be noted that this way of looking at the costs and benefits of integration does not include the basic factors in the imperfect international markets of goods and services, namely, economic and political blocs, increasingly managed trade and transnationalization and internationalization of world relations. Accordingly, the increased capacity to negotiate and support joint positions, which reinforces economic and political unity, must be assessed in its true dimensions. The theory of the behaviour of customs unions and free trade zones, which is mainly based on the existence of competitive and open international markets, has been discredited by a reality that shows, now more than ever, that these conditions never existed.

On the other hand, the list of co-operation measures made feasible by the existence of

subregional integration schemes would be a long one. Initiatives in the joint exploitation of shared natural resources, such as binational hydroelectric resources, the Energy Co-operation Programme for Central American and Caribbean countries, signed in San José by Mexico and Venezuela, and the Action Committees of the Latin American Economic System (SELA), would have encountered great difficulty in crystallizing had it not been for the knowledge and the linkages resulting from integration efforts in the region.⁵

Subregional integration schemes have generally tended to concentrate mainly on aspects of reciprocal trade and its financing. Some, however, ventured into other areas, such as the programming of branches of production, electrical interconnection, transport facilitation, culture and, to a lesser degree, technological development. Thus there is plenty of room for applying contributions of these processes to the development of the subregions, and especially for enhancing their presence in the international economy.

Finally, integration has a political dimension that is closely linked to the governments' ideas and their specific political strategies. Through unity, the rebirth of democracy in most of the countries can find considerable support and enrichment.

The conclusion that may be drawn from the above analysis is that integration is a complex process with political, economic and social dimensions, which must be relevant to each country's views and variants on the integral development of society. Integration is therefore a means by which to co-operate in achieving the domestic objectives of a society and to make viable its more equitable, dynamic participation in the international economy.

⁴Rudiger Dornbusch, "Los costos y beneficios de la integración económica regional", *Estudios*, year IV, No. 19, Córdoba, Argentina, July-September 1981.

⁵For a detailed description of co-operation initiatives, see *Integración y cooperación regionales en los años ochenta*, Estudios e Informes de la CEPAL, No. 8, Santiago, Chile, 1982.

II

Some recent initiatives

1. *Brief summary of past events*

When integration processes first began, national planning was an important tool of the economic policies of the countries of the region. Through it, most of them received reasonable guidelines on the objectives and goals to be reached—globally and sectorally—, which made it feasible to promote various joint projects.

By the mid-1970s, planning lost ground in the conduct of economic policies. Meanwhile, neo-liberal trends were gaining acceptance and in some cases were pushed to their extreme. This transitional phase in economic management slowed down efforts towards integration, contributing to its growing weakness. An outcome of this situation was the review and modification of some basic agreements, such as the First Protocol Amending the Cartagena Agreement (Arequipa, 1979) and the new Montevideo Treaty of 1980. These conceptual readjustments were based on the growing disparity between national policies and the multilateral policies issuing from each integration scheme.

Since 1982, when the serious problem of foreign debt exploded, another adverse condition has arisen. The countries have begun to act primarily in response to conjunctural situations and have been faced with the adjustment policies recommended by the International Monetary Fund (IMF), which further weakens integration efforts. This crisis, however, although obviously negative, has had positive effects on the main concepts behind integration. A large majority of countries confirm that it is not just a problem of whether they can service the debt or not, but that the elements of the crisis are more extensive. This reveals the weaknesses of industrialization processes and the need to promote a general re-adaptation of the productive apparatus. As will be seen further on, this is one of the key ideas of the Integration and Economic Co-operation

Programme (PICE) and of several protocols signed by Argentina and Brazil.

In addition, in national societies, the negative effects of recent authoritarian governments and of the existing strong ties with developed countries continue to be felt. Nevertheless, important events have also occurred recently which may help make integration and co-operation efforts viable again. A way of solving the Central American conflict has been found in the Esquipulas II accords, which have the decided backing of the Contadora and Support Groups. There is a renewed regional political will being expressed systematically in recent times. This attitude may make it possible for the Central American integration process to be rebuilt gradually, the Andean Group to resume a dynamic pace in its activities, the Latin American Integration Association (ALADI) to gradually become an authentic regional forum for the trade and payments of the region, and the Latin American Economic System (SELA) to succeed in formulating and consolidating the many endeavours developing within it.

In sum, reviewing what has been occurring in integration processes, it is evident that there is a close correlation between past events and the prevailing political setting. It can also be seen that this setting, perhaps for the first time, is now more favourable to unity.

2. *The current situation*

The predominance of democratic processes has created a different environment, characterized by the existence of a new regional diplomacy, with frequent, direct dialogue at the ministerial and presidential levels. This does not mean that integration and co-operation have surmounted all the difficulties to become the panacea that will cure the ills of the uncertain economic situation which affects all countries to a greater or lesser degree.

The current status of integration and co-operation processes must be examined with a critical eye, beginning with the recognition that they are still far from having a decisive impact on national political projects, combining rationally and harmoniously with the orientations and policies of each country.

The conflict of interests is probably still the greatest difficulty. For many countries ceding part of a market to a neighbour amounts to endangering their own security. For example, trade deficits with the industrialized countries or South-east Asia are less important, while deficits with countries within the region, especially with a country belonging to the same integration scheme are serious political problems. Overcoming this rigid view is an especially important challenge for governments, political parties, intellectuals, workers, businesses and the competent international organizations. Integration and co-operation must be understood not just as the sum of the greatest number of sales operations possible. A concept based on a true, ongoing interdependence among countries is preferable to such a "Phoenician" view. The task is neither easy nor short-term, but it cannot be deferred.

Within this general framework, the most promising recent initiatives have been the Regional Round of Negotiations, the Protocol Amending the Cartagena Agreement, some bilateral agreements and the agreement on "Procedures for the establishment of a firm and lasting peace in Central America".

a) *Regional Round of Negotiations*

After a long period of deliberations and technical analyses—which took much longer than expected—the Third Meeting of the Council of Ministers of the Latin American Integration Association (ALADI) adopted, in March 1987, a normative framework within which the process would be developed. This framework contains at least two advances that should be pointed out. One is the strengthening of the Regional Tariff Preference (RTP), and the other—of greater importance—is the Trade Recovery and Expansion Programme (resolution 15 (III)). The ministerial agreements are weak, however, in that they make only a marginal analysis of the problem of

financing and payments. Yet in precisely this area there is an obvious bind which does not allow for the building of a dynamic trade co-operation scheme, such as the one required by the prevailing circumstances.

RTP is important because it is the multilateral mechanism *par excellence* of the Association. The tariff cutbacks that have been achieved are slowly approaching levels capable of generating trade. In any event, agreements must be reached on new and considerable extensions in order to attain the goal. The core problem, however, is the number of exceptions, which in practice make this instrument inoperative and discredit its multilateral character. A unique aspect of the Association is that RTP applies only to those countries which enforce it. By late 1987, nearly all the countries had complied with this procedure.

The Trade Recovery and Expansion Programme is without doubt one of the most ambitious goals promoted by ALADI. The main idea is to grant a wide margin of preference—on the average, around 60%—, so as to divert to the regional market 30% of the countries' imports from the rest of the world.

The lists submitted by the 10 countries—Bolivia excluded itself voluntarily—indicate an intraregional trade potential of around US\$12 billion. If 50% of that potential were to be realized intra-ALADI trade would increase from the US\$7.658 billion which it averaged in 1984-1985 to US\$13.8 billion, representing an 80% growth.

The basic scheme seems simple, but during the negotiating process initiated in April 1987 many problems were detected whose solution is still uncertain. The current difficulties are certainly surmountable, but they require deep-seated changes in the willingness to negotiate and in negotiation styles and procedures. The regional political environment and the ministerial resolution mentioned above are a step in this direction. Nevertheless, no progress has apparently been made yet in inculcating a different negotiating attitude, oriented toward new regional interdependence instead of merely promoting trade deals that may be short-lived.

Any attempt to reactivate long-term trade requires payment and financing mechanisms to promote and stimulate the expanding trade.

Notably little progress has been made in this direction. The Andean peso and the "gaucho"—whose norms have not yet been determined—are important steps, but are not enough to reverse the historical trend toward favouring trade with third countries, to the detriment of the Latin American market potential.

b) *Protocol Amending the Cartagena Agreement*

The crisis in Andean integration had its origin primarily in intra-subregional trade. The problem stemmed from various sources: sudden changes in exchange rate policies; the application of recessive adjustment policies; extreme concentration on trade between Colombia and Venezuela and the limitation of the import capacity of both. The servicing of the subregion's high foreign debt serves as a backdrop.

The recent Protocol (decision 217 of May 1987), which required long, hard negotiations, sets forth solutions for trade problems. It creates a temporary system of managed trade, based on annual, global and product quotas. They cannot be lower than 30% of the average annual value of corresponding imports from member countries in the period 1980-1985. Limits per country and express modalities of application for Bolivia and Ecuador are set.

The major innovations involve agricultural and industrial development, economic and social co-operation, institutional aspects and decision 24, on a common system of foreign investment. The modification of the latter is one of the most controversial aspects of the Protocol, since it has always been associated with the very essence of the agreement. There remains, however, the possibility of a future re-examination of some of these basic principles, which essentially attempt to preserve the benefits of the process for member countries.

c) *The Argentine-Brazilian agreement*

The Integration and Economic Co-operation Programme (PICE) and the series of protocols that have been signed to implement it have given a renewed thrust to bilateral relations and have produced effects that may help invigorate the process of Latin American unity.

During 1987, the pace of political co-operation that began in mid-1986 was

maintained. More than 20 protocols were signed, covering dissimilar and complex areas. They deal with capital goods, biotechnology, nuclear energy, transport, money supply—the "gaucho"—and various cultural aspects. It is difficult, however, to find indicators that can be used to assess the real degree of interrelationships being developed. In this context, agreements on nuclear issues and the resulting detente, and advances in aircraft manufacturing or progress in biotechnology, are aimed at producing long-term results.

The Investment Fund Rules and Regulations were approved in the second half of 1987, which has delayed the investment process required for the execution of several protocols, especially the one concerning capital goods. An *ad hoc* working group is trying to resolve the problems and cost of transport, particularly in the case of wheat. The technical and administrative phase for the building of the Pichi-Picun-Leufú hydroelectric plant has been completed and the financial part having to do with opening it is being negotiated. In communications, an interconnected system is being formed through the use of digital networks.

The protocol on capital goods has made remarkable progress in respect of negotiated items. Including the second section of the common list, nearly 30% of the projected goal was met (600 items in total and 190 already incorporated) for the programmed four-year period. This shows significant progress, although in some cases only specific products within other, broader categories are involved. For Argentina, this has meant a net generation of exports, but these are chiefly mass-produced goods, basically machine tools for small- and medium-scale producers, who normally do not represent a high volume of demand.

This protocol has evolved past the easy stage which allowed for the inclusion of products in the common list by agreement among all producers. In order to continue to move forward in 1988, goods which will affect business interests must be included. In cases where there is a certain parallelism in the countries' industrialization processes, achieving a trade opening will be a complex task.

As a negative factor, it should be mentioned that there has been no progress in public sector purchases, not only because of the complexity of the subject, but also because PETROBRAS for example—which is the source of the greatest demand—, has only one registry of local suppliers. Yacimientos Petrolíferos Fiscales (YPF), on the Argentine side, still has not organized a list of suppliers. Circumstances exogenous to the protocol are slowing down its implementation and impeding full use of its potential.

Finally, it is noteworthy that Partial Scope Agreement No. 1 has become an excellent negotiating framework in trade matters. Tariff preferences have been expanded, barriers and other measures having the same effect have been eliminated and many new products have been incorporated. Nevertheless, problems with non-compliance have limited the trade of some agricultural products. Both governments will undertake an evaluation of this instrument in order to determine the necessary corrective measures.

Finally, it should be remembered that, although the agreement is bilateral, Uruguay has participated actively in its political structuring, making it possible to formalize specific agreements among the three countries.

d) *Economic co-operation with Central America*⁶

The following are some of the elements of the current Latin American scene which indicate the dimensions of the task that the region must face as a whole:

i) The deterioration of the external sector is alarming, in terms of the magnitude and growth rate of the debt and of the continuing deficit in the trade balance of every Central American country. Between 1980 and 1986, the foreign debt rose from around US\$7 billion to more than US\$17 billion, and a deficit of over US\$10 billion accumulated in the trade balance during the period. Until 1987, the subregion was unable to recover the export levels attained at the beginning of the decade.

⁶The text that is presented next was elaborated before the preparation, at the request of Secretary General of the United Nations, of the special plan of economic co-operation for Central America.

ii) This deterioration is even more pronounced in the trade among the countries themselves. Particularly noticeable is the drop in the trade of industrial and manufactured goods. Exports within the subregion, which represented 25% of total exports in 1980, fell to 10% in 1986. The intra-subregional debt exceeds US\$720 million.

iii) The deterioration of the external sector is centred in Nicaragua and El Salvador. Nicaragua accounts for more than one third of the total external debt and trade balance deficit accumulated in the last six years, and 77% of the intra-subregional debt. For its part, El Salvador accounts for one third of the total trade debt accumulated by the subregion. This makes both economies "bottlenecks" for the economic reactivation of the whole area. It has thus become an urgent need to solve the structural problems of these countries, both nationally and subregionally.

iv) On another plane, the political, war-related and economic crises have created a massive intraregional displacement of families with few or no economic resources. This highly sensitive issue of immense social magnitude affects every country of the region, placing a heavy burden on their economies.

In light of these facts and consistent with the views expressed by the eight Latin American presidents in Acapulco, there is a pressing need to take steps toward solving the problems of foreign debt, intra-subregional trade recovery and refugees.

To deal with the global foreign debt, combining the efforts of Central American countries with those of the rest of Latin America is the fundamental line of action, particularly *vis-à-vis* the industrialized nations and international financial institutions.

The intraregional debt requires new external resources for the payment of a part of the outstanding balance. This effort is estimated—as a preliminary working hypothesis—at approximately US\$250 million for the upcoming three-year period, along with a renegotiation of the balance, and requires strong, united support from Latin American countries and the international community. One option, which could come from the Latin American countries themselves, would be to

provide goods payable on the long term under clearly concessional conditions.

The *reactivation of trade flows* among Central American countries would be a factor in promoting the improvement of the regional economy. A fundamental element would be the re-establishment of the productive capacity to export of the countries suffering the worst economic decline, and the financing of exports—or imports—at various stages. The increase in industrial exports would help to recover 58% of the level lost in intraregional exports.

Trade reactivation and foreign debt management—global or intraregional—will not last without the recovery of the most damaged economies of the region. This in turn implies the stabilization and reorganization of the main macro-economic variables. A programme for Nicaragua would require around US\$400 million—a figure that, for the moment, must also be considered as a working hypothesis—in order to re-establish productive capacity and halt inflation through an influx of consumer goods. In the case of El Salvador, the figure would be lower, in view of the external financial support which it already receives.

These steps are precisely aimed at revitalizing the integration scheme and

overcoming some of the serious obstacles that confront its member nations. This must be combined with the co-ordination and unification of efforts not only to deal with the debt problem but also to promote exports and Latin American and international economic co-operation.

The subject of *refugees and displaced persons* is a serious social problem, which undoubtedly has had severe economic repercussions. The main recipient country is the United States. Mexico provides asylum for around 200 000 refugees, chiefly from El Salvador, Guatemala and Nicaragua. The problem also exists in Costa Rica. There are no relatively reliable statistics concerning this important issue, but there is a common recognition that it is significant and represents a political priority for the subregion.

The solution to this problem must combine direct assistance in food, health and education with efforts related to the "repatriation" of refugee groups. It is necessary to give them the means to exercise their productive capabilities, whereby they plough back resources into the national economies of the subregion. According to preliminary studies, nearly US\$250 million would be required to begin to solve the problem.

III

Some policy, strategy and action proposals

1. *The political and geopolitical dimension*

It has been noted repeatedly—and justifiably—that in their most concrete expression regional integration and co-operation have the support of only the few governments and private business sectors directly involved. This reality, which largely explains the fragility of these processes in Latin America and the Caribbean, must be the point of departure in the pursuit of more participatory, open systems.

Efforts to involve the main economic, political and social agents in initiatives for greater unity and linkage among the participating

nations should specify their objectives. In the present situation, the traditional results expected of economic integration and co-operation must be complemented by achievements in areas that are important to the people themselves.

The guarantee of democracy, the attainment of a lasting, stable peace and the channeling of a political pluralism toward the building of regional unity are values that would provide integration with a different and more profound dimension. At the same time, they can facilitate the incorporation of these processes into the aspirations and concerns of most of the national populations.

a) *Guaranteeing democracy*

Regional socio-economic heterogeneity means that a large dose of pluralism and pragmatism are needed in the conception and application of political strategies and schemes. Democracy in the national setting—and its extension to the region and subregion—can help to formulate an appropriate response. The essential elements of democracy should be used to shape more united, co-operative schemes among the countries of the region as concerted political efforts become easier.

Thus, for example, political agreements, essentially linked to democratic processes, have facilitated personal contacts among heads of State or among the highest ministerial officials. As a result of this new style of diplomacy, there has been an important change in the way in which regional problems have traditionally been addressed. Several cases illustrate this change. Among them are the many meetings of the Presidents of Argentina, Brazil and Uruguay; the contacts among the Central American Presidents and the meeting of the Presidents of the group of eight countries members of the Permanent Mechanism for Consultation and Policy Co-ordination held in Acapulco from 27 to 29 November 1987.

A difficult but fundamental task facing the region is to convert the integration and co-operation schemes into processes whereby concerted political efforts are increasingly undertaken. This will undoubtedly contribute to their reinforcement and consolidation, while serving as a mainstay for the democratic régimes of Latin America and the Caribbean.

b) *Concerted geopolitical efforts*

As history shows, the effects of geopolitical tensions have not only weakened relations among the countries of the region, but also have undermined the very foundations of national development. In fact, military spending more than doubled during the 1973-1982 period.⁷ In eight of the 21 countries of Latin America about which there is information on the functional distribution of public sector expenditures,

defence spending exceeded spending on health; in three it was greater than spending on education and in two was higher than the sum total of education and health spending.⁸ In Central America—as in other nations of the region—military spending openly competes with resources for social and economic development.

The real potential for conflict in the region is found, as a general rule, in the border disputes among neighbouring countries. The discovery of collective formulas to deal with these situations ought to reduce the escalating arms race, since nationalist sentiments often hinder an objective evaluation of the cost-benefit ratio of such territorial disputes. Sometimes, this leads governments to spend more on arms than the object under dispute is actually worth, thus motivating neighbouring countries to arm themselves further. Nevertheless, the powerful political and economic interests outside the region which contribute to the often artificial tensions, cannot be ignored.

From another angle, bilateral tensions and conflicts not only have an impact on the linkages among the countries involved, but also tend to slow down or immobilize regional integration and co-operation initiatives, as could be seen recently in Central America. How can integration and co-operation contribute to a positive change in this situation? The following are some suggestions in this direction:

i) Regional unity, through integration, could be encouraged as a feasible way of providing the countries with real national security, while maintaining the attributes of true sovereignty;

ii) A political setting could be created that would be favourable to submitting conflicts to peaceful solutions which ward off the threat of the use of force, committing the region's entire political will to this initiative, and

iii) A Latin American treaty could be signed, guaranteeing to each of the countries: territorial integrity or non-aggression; gradual, systematic reduction of military spending in order to devote the resources to economic and social development; respect for democracy as a form of

⁷Stockholm International Peace Research Institute (SIPRI), *Yearbook* 1983.

⁸International Monetary Fund, *Government Finance Statistics Yearbook*, vol. VII, 1983, p. 29 (various years between 1977 and 1982).

government; and respect for ideological pluralism.

Integration and co-operation organs should not be left out of the political tasks of the type mentioned above, since they are responsible for and benefit from the neutralization of geopolitical tensions. The difficulties in confronting this undertaking are enormous, largely because of destabilizing elements from outside the region. Nevertheless, it seems essential to begin the work on this front as soon as possible.

c) Search for a mechanism of political participation

In its Protocol Amending the Cartagena Agreement, the Andean Group incorporated the Andean Parliament as the principal organ of the agreement. At the same time, its spheres of competence and concrete links with integration activities were determined. In the medium term, the possibility of choosing the members of Parliament by direct vote was considered.

On 2 October 1987, in Guatemala City, the Treaty Establishing the Central American Parliament and associated organs was adopted and on 16 November 1987, in Lima, the Treaty Establishing the Latin American Parliament was adopted. These initiatives seek to fill the vacuum in participation by political bodies in subregional and regional integration and co-operation schemes. The primary aim is that these bodies should become a channel of expression for country-level political trends, which presently do not have any appropriate way of participating in integration and co-operation activities. As a result, the social forces do not feel committed to the processes of regional unity, and their support is, in general, purely rhetorical.

2. Convergence of regional efforts

Regional integration and co-operation will reach their full development only when they succeed in becoming closely linked to the governments' basic priorities, as reflected in their economic policies. This is a fundamental condition, which means closing the traditional gap between the generalized public statements made by social agents, and the actions of these agents. The latter become directly involved in the

formulation of the various programmes of regional institutions.

On the other hand, it is vital to overcome the institutional isolation that exists within the region. Each integration or co-operation scheme tends to want to be autonomous. This is a stumbling block in strengthening capacities in pursuit of shared goals and in many cases helps to widen the gap between multilateral and national policies.

The convergence of integration and co-operation schemes is also an essential factor. Normally, integration schemes have concentrated their efforts on trade, and have not actively encouraged the various co-operation initiatives. The bodies in charge of co-operation, for their part, use a limited approach for all practical purposes in their sectoral activity, which does not reach out to other areas.

Institutional convergence is another fundamental requisite, effectively enabling regional endeavours to become support elements and complement national policies. For these reasons, the extreme heterogeneity of the region must be recognized as an important part of the problem. Hence, a single programme for all these nations will rarely be workable. Guidelines which combine the interests of groups of countries with regard to specific projects must be defined. The idea is not to create new subregional groups, much less weaken the existing ones. On the contrary, by respecting the particular features of each scheme, joint actions with other countries can be co-ordinated.

The concept of a Latin American Economic System must be channeled toward these objectives. In essence, the governments, national social and political agents and regional institutions would gradually become part of a whole system with both overall and specific goals. The major elements of the overall goals would be the reduction of vulnerability and dependence in favour of autonomy in defining policies, and the constant quest for regional unity. At the level of specific goals—which may be sectoral or by given topic—the idea is to combine interests so as to create a true, positive interdependence among groups of countries, thereby facilitating the achievement of regional unity.

One of the basic goals of the Latin American Economic System (SELA) is to promote regional co-operation and inter-institutional ties. The Permanent Secretariat, as an organ of SELA, is responsible for promoting the building of the system. In the concept described, however, the System implies shared responsibility and therefore involves all actors, whether at the national, bilateral or multilateral level.

3. *Some concrete measures*

Without intending to present a prioritized agenda of initiatives, the following are some of the steps which could be taken on the short and medium term in order to solve urgent problems, and to which integration and co-operation could make a considerable contribution.

a) *Programme for the reactivation and generation of new intraregional trade flows*

i) Channel new political support to the current efforts by ALADI to implement resolution 15 of the Council of Ministers (March 1987), whose purpose is the reactivation and expansion of trade. The central problem in this case is an operational one. The ministerial political decision cannot be implemented, owing to various technical problems which must be overcome as soon as possible. This would require the direct intervention of foreign trade authorities with clear political mandates, who could collaborate positively with the efforts of the Committee of Representatives and the General Secretariat of ALADI.

ii) Design and promote a new negotiating scheme between the Andean Group and Argentina, Brazil and Mexico. This should go beyond traditional trade negotiations toward sustained increases in the coefficient of supply, with a view to reaching a true regional interdependence.

iii) Build a framework of joint negotiations between Central America and the ALADI countries, with the goal of generating new trade flows which will help to increase the use of installed capacity and to establish operational linkages between the two groups of countries. This trade collaboration must be seen as being

complementary to general economic co-operation with Central America.

iv) Study the possibilities of furthering trade negotiations between ALADI and CARICOM countries. Despite the limited results of the "Caribbean Basin Initiative", it could be considered one of the points of departure for business co-operation and joint investments.

v) Promote negotiations to reactivate the trade of foodstuffs. Supply levels could be raised on the basis of the region's actual potentials. A gradual, controlled process of specialization could make better use of resources, increasing business profits and reducing government subsidies.

vi) Elaborate and agree on operational trade strategies in the areas of tariff and non-tariff barriers which, for example, permit the use of the region's purchasing power to improve the access of its exports to the main international markets.

vii) Channel government purchases. This topic has been extensively explored by several bodies, but a reorientation of purchases by government enterprises has not yet materialized. Nonetheless, it is urgent to renew efforts in order to use this considerable potential for trade and development among countries.

b) *Financing and payments*

i) Minimal initiatives include the streamlining of payment mechanisms, the "de-dollarization" of reciprocal trade and the attraction of new foreign exchange in order to provide liquidity to current clearing facilities and financial systems in general. The creation of a Latin American reserve fund could also be considered, or the establishment of a Latin American foreign trade bank, taking into account the existence of the Latin American Export Bank (BLADEX). Such a trade bank could be comprised of certain institutions controlled by regional public or private banks in several industrialized countries. The main idea would be to have the majority of the financial and credit flows generated by transactions pass through this body, which must be capable—because it is solvent and reliable—of attracting Latin American deposits abroad, even those representing capital flight.

ii) In the same vein, various measures to generate short-term effects in the quest for regional interdependence could be formulated. For example, the Andean Development Corporation (ADC), the Central American Bank of Economic Integration (CABEI) and the Caribbean Development Bank (CDB) could establish close ties with LATINEQUIP. The goal would be to channel the acquisition of capital goods from the region in order to increase and renew industrial stock and reactivate the economies. LATINEQUIP could assume the additional obligation of incorporating local replacement parts to correct existing imbalances. It could even promote exports to supplier countries so as to achieve a balance—even though partial—of trade.

iii) In relation to Central America, the co-operation that can be offered by the rest of Latin America and the Caribbean is seen as a complement to the domestic efforts of the countries of the subregion. This should include various aspects. Besides the trade co-operation already mentioned, external financial collaboration is essential. Several countries of the region have joined the Central American Bank of Economic Integration since it opened up to new members, a trend that should be expanded and consolidated. Likewise, there is a vast range of possibilities for developing technical co-operation between the Central American countries and the larger nations of the region.

c) *Foreign debt*⁹

The Cartagena Consensus is proof that it is possible to generate co-operation mechanisms in this matter. However, since the 1982 crisis, neither the region as a whole nor one group of countries has been able to propose a symmetrical negotiating scheme. This should be based, *inter alia*, on the reduction in the size of the debt and an adjustment in the interest rates, bringing them down to their past levels. For these

purposes, there are a number of legal precedents worth reconsidering. Latin America and the Caribbean have a strong, unutilized negotiating power in this respect which has a direct impact on their economic and social growth. It is urgent, therefore, to organize and apply this negotiation capacity, putting it to use in the legitimate interests of the countries.

d) *Sectoral measures*

i) A major, joint effort is needed to seek formulas to revitalize industrialization processes on the basis of national and subregional guidelines. These guidelines must be carefully examined, in the light of prevailing international market trends, technological changes and the international division of labour. Likewise, the productive links, spheres of specialization and, in particular, possible complementarities in complex products and dynamic, modern branches of the economy, based on the expanded markets offered by integration, should be kept in mind.

It would be feasible to use these expanded areas to transform industrial activity, especially in those branches which exhibit gaps or very low levels of consumption. The countries which have reached a high degree of development in the region can collaborate effectively with relatively less developed countries in the application of technical progress to manufacturing activities.

ii) A co-operative scheme for agricultural products and commodities should be organized with a view to increasing regional supply, ensuring rational levels of consumption and attaining maximum autonomy, especially with respect to international markets. As is well known, these markets fluctuate sharply because of the subsidy policies of the industrialized countries.

iii) Technological exchange in the agricultural sector should be promoted, to enhance technological knowledge and support the creation of appropriate technologies. This will be geared not only to the export sector, but also, and especially, to the subsistence economy, which has suffered severe productive and food setbacks.

iv) The various efforts being undertaken in relation to food security at the national,

⁹This subject is explored in more detail in the ECLAC document, "Relaciones económicas entre los centros industrializados y la periferia latinoamericana" (LC/R.641), Santiago, Chile, 18 February 1988.

subregional and regional levels should be coordinated and organized.

v) A co-operative programme in the service sector, which will help to bolster a joint stand in the Uruguay Round of GATT negotiations, should be implemented.

This sphere could entail such measures as the diversion of trade to the countries of the region, and measures to facilitate the intraregional lending of services; for example, the granting of regional or subregional preferences in respect of access to markets, government purchases and trade financing.

Measures such as those described can be implemented in a relatively short time, since the

corresponding initiatives exist and have been discussed, but their results may require longer periods.

For the medium term—even simultaneously with previous measures—the region needs to make the necessary adjustments in the productive apparatus to adapt it to the new circumstances of the international economy. The environment in the coming years will be highly technified and competitive, which will require a continual modernization of the productive structures. Otherwise, the region will be unable to overcome the growing limitations imposed by the changing world scene, or qualitatively modify its participation in the international economy.