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THE LATIN AMERICAN COMMON MARKET



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nevertheless introduced a minimum of rationality in a very substantial area of world trade. There is every reason to believe that it will be possible to deal with the problem of the regional integration of the Latin American countries in accordance with the rules of reason and common sense, avoiding the hazards of excessive dogmatism.

First of all, it should be easy to recognize that, although the development of a common market will entail a certain amount of protectionist machinery, that is due not so much to the regional approach as to the need of the Latin American countries for industrial development. There might be a danger of confusion if new tariffs on imports from the outside world coincide with the first stage of liberalization inside the Latin American area. The alternative here is not less external protection, but the protection of a less rationally organized industrial system.

It would seem also that some of the objections raised in the past with regard to preferential tariff systems have lost some of their relevance. A tendency has gradually emerged to give them at least the benefit of the doubt, to regard them as a useful if not inevitable stage in development towards a more nearly universal system. We cannot in this context forget the experience of Europe and the welcome given a few years ago, in the name of the universalist principle, to the European Payments Union. The benefits of that Union have since become evident. Similarly, the liberalization of trade within OEEC was formerly based on a policy of systematic discrimination with regard to the dollar zone.

It was none the less greeted as a major contribution to the policy of eliminating customs barriers.

There is also an increasing degree of speculation as to whether the world would not be easier to organize economically if the game was played by fewer and less unequal partners. There is some reason to believe, for instance, that negotiations on tariffs would receive fresh impetus if the concerted action of certain groups of Governments reduced the risks now inherent in the most-favoured-nation clause. Thus a new, more discerning and more tolerant dialectic of ends and means is taking shape, and may provide the framework within which the projects you are examining today can find their legitimate place.

I am stressing, perhaps indeed labouring, questions to which you have already doubtless found an answer. But I am forced to do so by my position in the United Nations. An organization like ours, which from the outset has endeavoured to combine the regional approach with the endeavour to achieve a world order, must necessarily be alert to the latent conflicts which may set the one against the other. That is why it is, in my view, so important that regional integration projects should have taken shape within the United Nations, and I should like to express the hope that they may continue to be developed in association with it. That, it seems to me, is a strong safeguard that the interests of the region will be brought into harmony with those of the world as a whole.

There is another reason why the United Nations is continuing to help the American States to establish a regional market. As an institution, the organization has proved itself perfectly adapted to the needs of such an undertaking. It has provided studies and analyses to Governments, in other words, the necessary theoretical basis for action. It has also provided a centre for consultations, thus reproducing on the economic plane a process which has been developed in recent years in the political field. Your Executive Secretary has been able to gather around him both independent experts and persons responsible for government policy. He has been able to bring them together empirically, as need required, so that the

various aspects of the problem could be considered successively and separately without losing sight of the needs of the over-all plan. This form of inter-governmental co-operation is in many respects more constructive and fruitful than the routine work of the United Nations often proves to be, based as it is entirely on public debate. It makes for an easier and speedier passage through certain stages, and lays the foundations for a really informed and constructive public debate. Such opportunities have always been provided by the Organization. But they have hitherto been used only sporadically and the experience gathered here may serve as an example to the entire Organization. In any case, it gives us an assurance that the United Nations can continue to render increasingly effective service to Governments in a venture which promises so much.

3

Statement made by Mr. Raúl Prebisch, Executive Secretary of the Economic Commission for Latin America, on 11 May 1959

First and foremost, I should like to add my expressions of gratitude to the Government of Panama to those already voiced on behalf of the United Nations by the Under-Secretary for Economic and Social Affairs, Mr. De Seynes; and also wish to thank the Minister of Agriculture, Trade and Industry of Panama very sincerely for his words of encouragement to the ECLA secretariat.

Nor could I fail to take this opportunity of offering my grateful thanks to the Head of the delegation of Argentina for his heartening remarks about our work, and to you, Mr. Chairman, my very great appreciation of all that you have been kind enough to say of ECLA's activities. And, although I may perhaps be slightly exceeding my functions as an official of the secretariat, I should also like to express my deep satisfaction at seeing you take the chair at a session of the Trade Committee which will indubitably be of far-reaching significance for Latin America. The chairmanship of Mr. Garrido Torres might be described as a happy instance of historical continuity. It was he who, in company with other economists, launched, when the right moment came, the idea of the Latin American common market. He, among others, expounded it brilliantly not only in his own country, but in other circles on which the future of the idea would to some extent depend. I am confident that, as on previous occasions, Mr. Garrido Torres will discharge his responsibilities at this session with wisdom agreeably salted with wit.

Since the first session of the Trade Committee, a series of important meetings have been held, the results of which will be considered on the present occasion. The Working Group on the Latin American Regional Market has met twice; the Central Banks Working Group held its second session at Rio de Janeiro to discuss the payments problem; and, under the auspices of ECLA, four series of consultations on trade policy have taken place, two with experts from the southern zone of South America and two with consultants from Colombia, Ecuador and Venezuela. All these meetings served the single purpose of clearing the way for definitive proposals in connexion with a multilateral payments mechanism and with the common market of which such a mechanism is an essential part.

The consultants on trade policy from the southern-zone countries, at their second session, held recently in Santiago, Chile, drew up a draft agreement on a free-trade zone which, in my view, is technically excellent. The Governments concerned will no doubt take the opportunity afforded by the present contact with other Governments members of ECLA

to explain the scope of this draft agreement. I only want to mention here one fact to which the secretariat attaches considerable importance in connexion with the work that is being done in this field. The draft agreement was dictated by the pressure of circumstances and the need to prevent trade among the southern-zone countries from being seriously affected by the repercussions of tariff and exchange reforms. Even so, the high technical quality to which I have pleasure in calling attention may perhaps make this instrument the initial step in a much more far-reaching course of action.

In this connexion, the trade policy consultants who studied the draft agreement seem to me to have adopted a very happy decision when they resolved to suggest that their respective Governments should pronounce themselves convinced of the absolute need for this instrument to remain open to other countries which might desire to accede to it. Nor was this all. They also recommended—and this is a supremely important point—that the Governments in question should declare their willingness to renegotiate the instrument, in such a way as to afford ample scope for all the other Latin American countries to participate in this new negotiation, once their Governments had reached agreement on the bases for the common market. And in taking this line, the consultants clearly demonstrated their conviction that such an instrument ought at no time to assume the character of a closed shop.

Similar considerations were put forward a very few days ago at the consultations on trade policy held at Caracas. This series of meetings, like those held by the southern-zone countries, also resulted from the need to devote immediate attention to certain trade problems. The consultants submitted a number of recommendations to their Governments, not only in relation to trade policy, but also with regard to the need for co-ordinating their economic programming efforts, as well as certain activities such as those connected with maritime and air transport. But, again like the southern-zone consultants, they placed on record their opinion that the results of whatever common market agreement might be concerted should be incorporated into any temporary arrangements that circumstances might induce the authorities in their countries to decide upon, and submitted a recommendation to their Governments to that effect.

All this represents a full and satisfactory response to one of the major preoccupations evinced by the Working Group on the Latin American Regional Market, both recently at Mexico and at its first session in Santiago; namely, that the aim should be for the Latin American common market to include the largest possible number of countries within the geographical orbit of Latin America. And I stress this point, because I consider it to be of supreme significance. It is not—happily for Latin America—that I have observed the slightest tendency towards exclusiveness. But what I have noted, on the other hand, is a certain doubt, a persistent doubt in some cases, as to whether the common market could or should be extended to the whole of Latin America. Such misgivings are engendered by a static conception of the common market problem. What is the point, it is often asked, of forming a common market in which the southern-zone countries join with others like Mexico, when there is no trade between them? But the very reason why there is little or no such trade is that in Latin America the outmoded patterns of the nineteenth century still prevail. The creation of a common market at the present stage of energetic industrialization, so necessary to the countries of Latin America, would aim precisely at breaking up those outmoded patterns so that existing intra-regional commerce might be supplemented by trade in industrial products. Consequently, if a dynamic approach is adopted to the common market problem it seems patent that, given the need to

accelerate Latin America's industrialization process, all the countries, large, medium-sized and small, ought to join the market in order to endow it with the breadth, depth and efficacy which it would otherwise lack, if the Latin American countries continued to be grouped in a series of isolated subdivisions.

The second report of the Working Group, drawn up in Mexico, is a sequel to the first, and can only be interpreted in close relation to it, since for obvious reasons it was felt desirable not to revive at the second session topics which had already been dealt with at that held in Santiago. The idea of discussing both documents together therefore seems to me very sound.

I do not regard the proposals made at Mexico as in any way final, and I should like to recall the terms in which the Chairman himself, as a member of the Working Group, stressed at the closing meeting that they represented a step forward, but not yet the decisive step. That would be impossible, in so intricate and complex a field as will be studied at the present session. The greater the knowledge acquired concerning Latin America's real situation, and the more the common market problem is discussed with those qualified to express representative and authoritative opinions, the stronger does the conviction become that ideas which formerly might have seemed very well-grounded may lack foundation, or at least require adaptation to circumstances that at the moment when they were formulated could not be clearly described. These two reports seem to me to provide sufficient data to afford the Governments assembled here an opportunity for thorough discussion of the problem, so that the secretariat may be given an indication of the lines on which it should proceed with the work. Not only will it be possible to establish guiding principles, but also to decide upon the form to be assumed by the task that lies ahead. Perhaps the Governments represented on this Committee, after the next few days' discussions, will decide to maintain the working groups in which distinguished experts participate in a personal capacity. Or, again, they will perhaps consider that the time has already come to operate at governmental level and to appoint a committee of Government experts, so that the work may be pursued in close contact with the authorities and with the representative economic forces of each of the countries concerned.

The foregoing is a question which I should like to take this opportunity of submitting to the Committee for its consideration. In my opinion the Mexico bases are of considerable merit because of their lucidity and because of their concrete approach to the problem, while at the same time they make no claim to establish solutions too inflexible to be adapted to the unequal stages of economic development reached by the countries of Latin America. The point of departure is a simple and feasible idea. What Latin America needs during the first phase of its common market is a substantial reduction of tariff duties and, within a reasonable time limit, the total abolition of all such restrictions as hamper the flow of trade.

It is therefore recommended that Governments should engage to reduce and abolish restrictions, over a period of ten years, in such a way that the average level of customs duties should not exceed a certain figure in relation to the total value of each country's imports. Thus, the system of averages is the proposed means of determining the commitment to be undertaken by the contracting parties. This is no mere arithmetical device. It is, in my opinion, a happily conceived formula whereby a series of difficulties that were cited as motives of concern at the sessions of the Working Group can be circumvented. The foremost of these is the problem of how to establish specific and clearly defined inter-governmental

commitments while at the same time ensuring that, during this formative phase of the common market, the Governments concerned should be allowed all the freedom of movement they required not only to make the requisite adjustments to the changing features of the real situation, but also to safeguard certain industries and activities from the disastrous consequences which sudden competition from imports might otherwise produce. Thus, under the system of average, a Government could abolish or reduce duties on imports of certain goods of which the manufacture is not at present developed or established. This would cover the whole immense range of capital goods, intermediate products, motor vehicles and other items which as yet are not produced or manufacture of which is barely beginning in Latin America. Those are the fields in which the Governments would be able, with great freedom of movement, to adopt extremely progressive decisions, while in respect of other goods, current production of which would be placed in a vulnerable position, the authorities could act with caution, leaving certain duties almost or entirely untouched, so as to prevent the common market from distorting the development of existing activities.

In other words, I believe that with the system of averages a solution has been found for a problem of vital importance—that of resolving upon a specific and clearly-defined commitment which at the same time would impart to government action a great measure of flexibility in the application, through successive negotiations with other Governments, of the reductions which each one might deem it expedient to introduce, always providing that such reductions would ultimately bring duties down to the average agreed upon by the end of the period. A possible subject of discussion would be whether a single duty average in relation to the value of imports should be adopted for all trade items, or whether it would be better to establish three groups of goods, as recommended by the Working Group. I offer this suggestion not in a dogmatic spirit, but simply as a basis for discussion and a means of channelling or organizing it. Other variants might of course be introduced to improve upon or modify the Working Group's proposals, but the fundamental idea of a specific commitment seems to me of decisive importance for the success of the common market, since if such a commitment, however modest, did not exist from the outset, negotiations might be jeopardized, inasmuch as they would be conducted at random, in pursuit of no definite course. The system of averages, on the other hand, would make it possible for such negotiations to follow a clearly marked path, towards a quantitative objective duly defined in the agreement signed by the Governments.

Another of the advantages of the procedure of reduction to an average is that it allows a differentiation to be established between those Latin American countries which are in the initial stage of development and those which have advanced somewhat farther. In this connexion, the meetings of experts at Santiago and Mexico did admirable work, in that they had the resolution and temerity to establish a principle entirely new in Latin America, namely, that equal treatment cannot be accorded where inequalities in trade and industrialization situations exist. Guided by this consideration, the members of the Group are submitting to the Governments a proposal to the effect that the average level of duties which would constitute the target for the first ten years might be higher in countries at the initial stages of industrial development.

The question might be asked, however, whether from the industrial standpoint such a procedure might not encourage the less developed countries to repeat the same mistakes that have been made by the larger countries of Latin America, and attempt to establish all industries in their own territory, regardless of considerations of specialization and economic

dimensions. If the smaller countries were accorded a higher level of protection than their bigger neighbours, would they not be led into undesirable industrialization practices? Would not this encourage them to extend their production plans to all consumer goods and later to the anti-economic manufacture of capital goods? If the Working Group's recommendation had stopped short here, zeal for the welfare of the less developed countries would unquestionably have precipitated them into forms of economic autarky which are nowadays unacceptable; but the Group has wisely supplemented its first recommendation with another to which substantive importance must also be attributed. The aim of this second formula is to offer countries at the initial stages of development a further possibility, consisting in the special concessions granted by the larger to the less developed countries to stimulate the latter's industrialization process. As a result, the industrialization effort of a less advanced country, instead of being circumscribed by its own frontiers, would be able to take full advantage of the scope and opportunities offered by the markets of the bigger countries in order to sell such industrial exports as its lines of specialization permitted. In this way, every country in the initial stages of development would be in a position to choose between two alternatives, one bad and the other good. It could either endeavour to establish industries at any cost and in any order; or it could base its industrialization effort on a broadly selective criterion, so that, instead of attempting to produce all it consumed, it would consume part of other countries' production in exchange for such agricultural and industrial goods as it could send to those at a more advanced stage.

I should like to emphasize the term "agricultural and industrial". One of the points stressed by all the members of the Working Group has been the concept that the industrialization of the less advanced countries is as important as that of the larger countries, or even more so, at the present stage of economic development, inasmuch as Latin America could not now contemplate a recurrence of the traditional phenomenon of the international division of labour which we were taught in our youth, and which relegated certain countries to the category of primary producers and assigned to others the privileged role of industrial manufacturers.

This arbitrary casting of roles should on no account be repeated in Latin America, and the common market would constitute the only means whereby the less advanced countries could develop their industries along rational lines. Of course, the differential treatments suggested deprive the project of the charm of simplicity; but, as matters really stand, such simplicity would be purchased at too high a cost. It would imply the reduction to a common denominator of differences which at the present moment cannot be reconciled. Such inter-country distinctions will necessarily have to be drawn in any common market programme if it is to work well in practice once it has become a reality. Nor does this apply only to the countries at the initial stages of development. There are undoubtedly other Latin American countries whose industrial sector is destined to develop vigorously in the course of the next few years; I have noted in their case, however, the existence of very grave apprehensions lest the common market might frustrate their industrial development plans. In the countries concerned, owing to a particular set of circumstances, the high wage levels registered do not represent a high level of productivity, and, furthermore, are accompanied by a high cost of living. All this is the result of special circumstances. If the countries in question were to join the common market on the same terms as the rest, they would almost certainly be unable to avoid distortion of their industrial development plans or to take due advantage of the opportunity of specialization in industrial exports which the market in question would

afford them. Why? Precisely, because of their heavy costs, deriving from high wages and the high cost of living.

For such countries to be enabled to join the common market, I believe it would also be necessary to devise formulae calculated to permit and encourage their accession. Obviously, the more distinctions are drawn, the more intricate the apparatus will become and the less simple the operation. An effort will have to be made to introduce as few complications as possible, but some are bound to be entailed by the adaptation of the common market project to the widely differing circumstances characterizing the real state of affairs in Latin America. However, there is one overriding principle to which absorption in these partial aspects should never be allowed to blind us. It is a general principle which should pervade every common market programme, and to which Mr. De Seynes referred in his address this morning—the principle of reciprocity. It was given clear expression by the Mexico Working Group in the declaration that no Latin American country ought to be able to derive more advantages from the common market than the rest. And it was reflected in the following specific formula: any country which, by virtue of the common market, and irrespective of situations previously existing, tended to show a persistent excess of exports over imports should adopt additional measures to reduce or abolish duties and restrictions, in order to allow the other Latin American countries a foothold in its own market for their primary or industrial exports.

This is not a principle of equilibrium. Numerous arguments might be adduced to show how absurd it would be to attempt to break down the concept of the international balance of payments into two sub-divisions, i.e., equilibrium among the Latin American countries on the one hand, and between them and the rest of the world on the other. There are elementary reasons for shunning such a procedure. It is not concern for the balance of payments that is implied in allusions to reciprocity, but anxiety to ensure all countries equal and positive opportunities of sharing in the benefits of the common market.

It should not be forgotten that the operation of the common market will be mainly evidenced—especially during its early days—in a transformation of the traditional import substitution policy pursued in Latin America during the last thirty years. The common market will offer any given country a choice between continuing to substitute domestic production for imports within a watertight compartment, or sharing with other countries the task of industrial import substitution. And if this division of an arduous and increasingly difficult labour were not effected on bases of reciprocity, the common market would hamper the growth of those countries which were unable to contribute to its development through their own industrial export trade. If a country failed to find an outlet for its industrial production in the common market, it would be better advised to continue its industrialization process in a watertight compartment than to forgo that essential reciprocity. I therefore hope it will be possible to devise adequate formulae, thanks to which this principle will not be a mere abstract theory, but will be operative in practice, since otherwise the common market could not function satisfactorily.

It is clear from the foregoing that a dividing-line must be drawn between this concern for reciprocity and the motives on account of which a multilateral payments agreement is regarded as an essential part of any common market system in Latin America. In this connexion, too, I believe that positive strides were made at the two sessions of the Central Banks Working Group which, in compliance with the instructions of

the Trade Committee, the ECLA secretariat organized at Montevideo and Rio de Janeiro, respectively. At the second of these sessions, mechanisms created at the first were perfected, with the result that a draft protocol was prepared, establishing, for the first time in Latin America, communication among the bilateral accounts of countries in the southern zone, so as to render balances transferable from one such account to another. We are well aware that the arrangement as it stands at present is modest in its scope, but, apart from solving certain problems, it will have considerable merit because of its experimental value. It may, I hope, serve to reveal the possibilities for the gradual loosening-up of the bilateral accounts régime and its ultimate transformation into a multilateral payments system, which will be the more efficient the greater the number of countries included and, therefore, the larger the volume of goods negotiated through such agreements. At the suggestion of the Central Banks Working Group, the secretariat has continued to study the prospects for the gradual evolution of the southern-zone bilateral régime towards a Latin American multilateral payments system in harmony with common market objectives. If the market is to develop smoothly, the elimination of payments difficulties is an essential requisite, and there will be no means of facilitating payments or compensation among the Latin American countries until intra-regional trade is energetically promoted. Herein lie two aspects of one and the same problem.

I have more than once laid stress on the fact that there is no simple solution where the common market is concerned. Unfortunately, we are not confronted with a problem that could be settled once and for all by means of a felicitous formula. It is our conviction that such a formula is beyond our reach; the utmost we might achieve would be a series of instruments, including one of a preferential nature to be applied in inter-Latin American trade, which would enable the Governments to progress little by little towards the attainment of the basic objective, namely, the common market. The use of such instruments by those not fully convinced of the vital needs of the common market would be foredoomed to failure; hence their application would have to be subordinated to the implementation of a policy which, it must be confessed from the outset, is extremely difficult to pursue. It will not be easy to bring the common market into operation, nor to establish a multilateral payments system in Latin America, nor to adjust inter-Latin American trade relations to the region's trade relations with the rest of the world. This last is an essential requisite if trade with countries outside the region, far from being adversely affected, is actually to be expanded in consequence of the existence of the Latin American common market.

We are sure that this will be the case, but it would be a mistake to disregard one factor which is of fundamental importance at the present stage of Latin America's economic development, characterized as it is by a weakening of the external forces which formerly stimulated the region's spontaneous growth, so that much of the impetus thus given in the past has now been lost. Latin America will not be able to continue developing spontaneously at the rate called for by the social requirements of economic development, by the need to raise the standard of living of the population as a whole. Consequently, the common market question is part of a serious problem with which the region is faced—that of deliberately and intelligently mustering the vital forces of Latin America, with clearly defined aims and tenacity of purpose, in a co-ordinated endeavour to bring about a state of affairs in which a flourishing economy will generate its own development, a consummation not to be expected within the next few decades.