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CUSTOMS UNIONS AND FREE-TRADE AREAS - LATIN AMERICAN FREE TRADE ASSOCIATION

Statement by the Representative of Peru at the Council Meeting of 12 February 1970

The period which elapsed between October 1968 and October 1969 marks, not indeed chronologically but rather in its potentialities for the future, a turning point in the historic process of integration which is the aim of the Latin American Free Trade Association.

The fact that the countries which were attempting to integrate are at very different levels of development within a network of profoundly dissimilar social and economic conditions and covering a vast territorial area, places apparently insuperable difficulties in the way of achieving a political and economic union, the roots of which lie in the very process of American history, but at the same time they present a challenge.

Perhaps the example of Europe has led us to simplify the process which was begun in 1961, or perhaps on the other hand we have tended to complicate it with the result that we get involved in purely tariff discussions and negotiations, forgetting that the basic objective is to make our industries mutually complementary, to provide them with a wider and permanent market and to obtain adequate financing for the projects involved in integration.

The proof that complementarity agreements provide a solution for Latin American problems can be found in the fact that eight of those are already in force and that a ninth one, concerning products for the generation, carriage and distribution of electric power, was signed by the plenipotentiaries of Brazil and Mexico last October.

Before making a few brief comments on the events of the past year I should like to point out that within the framework of the liberalization programme which is intended to promote trade development, imports between the contracting parties increased by \$100 million. This figure, however, is quite small when we remember that all the imports of the contracting parties do not amount to \$1,000 million a year, which is just about the average annual imports of any one moderately developed country. This fact gives a clear idea of the modest level of our mutual trade even at the present time. We must not forget, however, that the purpose of LAFTA is to liberalize substantially all our trade and that these figures reflect the reality of our situation.

I intentionally refer to the modest level of our trade figures after eight years of a liberalization programme in order to stress once again the importance of certain other aspects of integration from the point of view of our future development.

The contracting parties have in their possession an exhaustive analysis made by their technical experts and have decided, without in the least wanting to show any slackening in their political intentions, to make substantial amendments to the Montevideo Treaty for the constructive purpose of bringing its terms into line with the realities experienced in the past eight years. Consequently, the so-called "Protocol of Caracas", signed at the IXth Session of the Conference a few months ago extended until 31 December 1980 the transitional period for building up our free-trade area which, according to the Treaty, should have ended in 1973. At the same time it adopted more concrete foundations for the future negotiations to transform LAFTA into a common market. It also decided to revise the standards governing the procedure for drawing up a common schedule and national schedules.

It is in the financial and monetary field that LAFTA has a feeling of being faced with very serious difficulties. In order to overcome some of the monetary difficulties action has been taken to speed up the mechanism for enabling the central banks to cover temporary shortages of liquid resources, and several meetings of the Commercial Bank have been held with a view to drawing up uniform operating procedures to facilitate the working of the system of payments and reciprocal credits adopted by the central banks of the LAFTA countries.

The absence of a financial and co-ordinating body is still one of the serious gaps in our integrated structure.

On the other hand, Latin America annually loses through invisibles more than it receives in the form of aid for development, and this fact, combined with the difficulties of a rugged territory, makes clear the importance of maritime transport, with all its consequences in the form of clashes of interest both at the regional

level and at the international level. These problems are now being studied with a view to adapting the situation to meet our desire for economic and social development. To this end it is indispensable to continue studying the recommendations made by our Council to the Executive Committee concerning the desirability of holding within the framework of LAFTA a special meeting on maritime transport to examine the problems in depth, including the possibility of eventually setting up single bodies at government and entrepreneurial level for maritime transport similar to ICAO and IATA, for example.

The process of integration, which is essentially our process, must however be able to count on resources from outside our Association. I should like to stress this point very strongly because I am not talking about aid, but about the investments which industrialized countries might make in the expectation of a reasonable return, on a scale adequate to meet the requirements of the social and economic development of our countries. If we ask for help for our development it is essential for us to present a common front as regards taxation, so as to encourage investment from outside the Area. We must try to evolve a mechanism which prevents dissimilarities and discrepancies in our respective laws concerning the treatment of foreign capital. For the above purposes we are preparing:

- (a) a general standard classification of taxes;
- (b) an adjustment of our taxation systems to the process of integration;
- (c) a provisional survey of the taxes in force in member countries of LAFTA.

We believe that, just as standardization of technical standards can promote the spread of technological knowledge and thus improve the application of that knowledge, so it is essential to have uniform legislation as an incentive to foreign investment.

What I have just said served as a basis for the study in depth, which was made by the Executive Committee of LAFTA in order to assess the progress of our work.

It was essential to undertake that study in a systematic manner, which would enable concrete results to be achieved within a relatively short time. For this purpose, the Standing Executive Committee divided the work into subjects, and I should merely like to point out that among the very large number of studies to be carried out, priority has been given to the following:

1. Assessment of the process of integration: Under this heading, the following points will be considered:

- (a) a general analysis of the process of bringing to light the main problems constituting an obstacle to development;
- (b) an examination of existing instruments and programmes;
- (c) mutual trade:
 - i. analysis of the characteristics and composition of intra-Area trade and its relationship to the total trade of the contracting parties;
 - ii. consideration of the programme of liberalization and the machinery to be used for carrying it out and, more particularly, the Common Schedule;
- (d) trade in agricultural products;
- (e) industrial development:
 - i. industrial complementarity agreements;
 - ii. integration by sectors;
- (f) co-ordination of economic policies;
- (g) harmonious economic development:
 - i. position of countries with a relatively less-developed economy;
 - ii. countries with an insufficient market.

Once this task of evaluation has been carried out, it will be essential as a second step to determine what action has to be taken in future. This heading is divided into the following four points:

- (a) determination of future stages of progress;
- (b) tasks to be undertaken in support of co-ordination of policies and the harmonization of instruments, as well as means of economic co-operation between the contracting parties;
- (c) action to speed up the process of integration;
- (d) uniform attitudes vis-à-vis third countries, groups of countries and international organizations.

2. Sub-regional integration: As representatives to GATT are aware, the Standing Executive Committee of LAFTA on 9 July 1969 approved Resolution 179, declaring that the Sub-regional Integration Agreement signed by Bolivia, Chile, Ecuador and Peru was compatible with the Treaty of Montevideo and the supplementary resolutions. In order to do this it was necessary for the Co-ordinator of the Joint Commission on the Declaration of Bogota, which was the starting point for the whole of this process, to make a lengthy statement before the Standing Executive Committee and also make certain additional statements to explain points raised by other members of LAFTA. Once these consultations and statements had been completed, the Committee, as I have just said, declared that the Sub-regional Integration Agreement, signed in Bogota on 6 May 1969 by the plenipotentiaries of the countries already mentioned, was compatible with the Treaty of Montevideo and was in accordance with the general principles laid down in Resolution 202, with the bases approved in Resolution 203 and with the standards laid down in Resolution 222 of the Conference; it therefore approved the Agreement. It is useful and necessary to point out that when the Presidents, or the representatives of the Presidents, of the signatory countries of the Andean Sub-regional Integration Agreement met in Bogota in 1966, they did so with the firm intention of promoting the balanced and harmonious development of the countries there represented, but at the same time it was known that some countries, or at least some governments, were concerned lest this might prove to be the establishment of a political and economic block, which might in some ways introduce a feeling of discrimination. I should like to state here that such was never the intention of the Presidents who met in Bogota and that their sole motive was a conviction that similarity between the degree of economic development of the countries concerned and their geographical proximity would help to promote the process of integration, always within the framework of LAFTA.

Moreover, the countries which signed the Agreement considered that balanced and harmonious development should lead to an equitable distribution of benefits derived from integration among the member countries and thus reduce the differences still existing between them. Consequently, the results of this process must be assessed periodically so as to see what are the effects on the expansion of the total exports of each country, the behaviour of its trade balance with the sub-region, the development of its gross national product, the creation of fresh employment and the formation of new capital.

The delegates here present are also aware that it was necessary to harmonize our economic and social policies and to approximate our national laws in the appropriate fields. It was also necessary to arrive at joint planning, intensification of the process of sub-regional industrialization and the carrying out of programmes of industrial development by sectors. From the outset, one of the most important problems has been that of a common external tariff, and the first step will be the adoption of a common minimum external tariff.

I do not wish to tire delegates by giving a detailed explanation of everything that the Agreement is going to achieve, because they can read that for themselves in documents which are readily available. I should, however, like to provide some information on the main organs of the Agreement, which are the Committee, the Council and, as subsidiary bodies, the various committees.

Thus the Committee is the biggest organ under the Agreement, and consists of one plenipotentiary representing the government of each of the States members. Every government is required to appoint one titular representative and one substitute. In addition to the Committee there is the Council, which is the technical organ, and which consists of three members working solely in the interests of the sub-region as a whole. The members of the Council may be nationals of any Latin American country; it is interesting to note here that they are not necessarily selected from countries of the Andean area.

The Committee chose Peru as its seat, thus doing my country an honour. It also selected as Executive Secretary for the Andean group a distinguished Peruvian economist, Dr. Javier Silva Ruete, who was previously manager of the Central Reserve Bank.

The process of integration of the Andean region is thus entering on its operational phase, and I should like to stress once again that all its operations will be carried out within the framework of LAFTA, which in successive resolutions adopted by its Conference made provision for the existence of one or more sub-regional agreements.

It is also interesting to point out that within the framework of the process of integration of the Andean sub-region it has been possible to avoid that gap which we have found to exist within LAFTA and which has hampered the positive progress of integration - I refer to the financial aspect.

The Andean group was conscious of this basic problem which affects our countries, and realized that it was essential to set up a body which would finance the regional investments of the group. To this end it established the Andean Development Corporation, which has its seat in the city of Caracas and which will begin operations in the very near future. The Corporation has a subscribed capital of \$100 million and a paid-up capital of \$25 million provided by the member States, but with certain interesting characteristics. There are shares held by member States, which are known as type A shares; there are shares held by private, semi-State or semi-official undertakings in the member States, known as B shares, and, finally, shares will be issued which are known as C shares and which will permit the possible participation of capital from outside the Area and even from outside the continent in this development corporation.

What are the advantages that may be expected from this type of sub-regional organization? Its importance lies in the fact that member countries and private undertakings in these countries are going to be able to unite their efforts to develop and expand critical sectors, and then withdraw when the projects are in full working order, leaving them in the hands of the private sector, and use their capital for other critical sectors. It also means - and this is very important for the representatives of the industrialized countries who are listening to me - that large-scale foreign investment will be in the form of co-participation in large sub-regional undertakings, with the following incentives to invest:

- (a) security as regards the investment which they are going to make, because they will be associates in joint undertakings and not exposed to the problems which would naturally arise in the event of nationalization in any of the countries concerned;
- (b) their investments will be more productive from the purely utilitarian point of view, because they will be working in an expanded market of 60 million inhabitants and this will overcome the difficulty which previously existed as a result of production costs being much too high for a small market.

This means that the measures taken under the Agreement for Sub-regional Integration, supplemented by the establishment of a financial body, provide a guarantee that this transitional process, which will remain within the framework and subject to the provisions of LAFTA, will have a positive effect on the development of our countries, which are a mixture of moderately developed countries, countries with an inadequate market and countries with a relatively less-developed economy.

I believe that, with this brief description I have given of the process of sub-regional integration which is now coming into operation, together with the information that I have given as to what has been achieved during 1969 by LAFTA, I have carried out the duty which I was given the honour of undertaking, namely, to transmit on behalf of the members of LAFTA an account of the most important events that have taken place during the past year, and which we feel sure will naturally be of interest to the countries which are Members of GATT.