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OF THE LATIN AMERICAN FREE TRADE ASSOCIATION,
AT THE CLOSING MEETING

It is for me an honour to have this opportunity to take the floor in the Trade and Development Committee of GATT which, by virtue of its origin, nature and functions, is one of the most important international forums for the Latin American countries. I should like to explain to you some aspects of the economic integration process now continuing within the Latin American Free Trade Association. This process is followed with attention and sympathy by your organization, for institutional reasons - indeed, several of the countries participating in it are at the same time contracting parties to the General Agreement on Tariffs and Trade.

As its title indicates - "trade and development" - in other words by virtue of its very essence, this Committee can undoubtedly do much to help the Latin American countries and is also well placed to ensure close relations between the organization of which it is a subsidiary body and the Latin American Free Trade Association.

It is very difficult to describe concisely yet comprehensively the experience of LAFTA over the five first years of its existence, and to outline its past problems and the fundamental problems still before it, whose solution requires full and decisive action by the governments of the member countries.

Because of the intrinsic complexity of any integration process, errors of appreciation often occur if its progress is examined and evaluated by an outside observer. In the case of our system, however, there is the additional difficulty that there exists, so to speak, an external image of Latin America - in some way a conventional image - as being a more or less homogenous entity, whereas in actual fact, as has already been pointed out, it consists rather of a spectrum of societies ranging from the most primitive to the most advanced stage of social development.

Common historical roots, similar traditions, the existence to some extent of a common language, a well defined geographical framework - these are not sufficient to overcome differences in political and administrative organization and in the behaviour of the most important economic indicators and fundamental differences in regard to industrial development.

All this makes it an extremely arduous task to establish a regional economic grouping of such magnitude as to permit the application of modern techniques and economies of scale.

Despite this and notwithstanding the obstacles and disappointments that must be overcome, the LAFTA countries seem today to be irrevocably determined to fulfil the endeavour commenced by them in 1960 with the signature of the Montevideo Treaty. And it should be pointed out that the greatest step, the most important advance in the process, is the emergence of a common political and economic philosophy which is slowly but surely becoming more and more deep-rooted. This may be seen from the way in which concepts and attitudes have evolved during the brief period of preparation and functioning of our Association.

Early efforts to establish an effective regional system of economic co-operation were influenced by the factual situation prevailing in Latin America in the 1950's. At that time, intra-regional trade was based on a complicated network of bilateral agreements that considerably slowed down the flow of such trade and its growth possibilities. Payments agreements were very effective mechanisms for regulating and channelling trade, so that the importance of tariffs as an instrument of trade policy was declining. But, particularly with respect to countries in the southern part of the continent, which between them account for almost 90 per cent of intra-Latin American trade, the application of this system largely deprived trade flows of any flexibility and resulted in the blocking of some accounts so that settlement became a problem of the first magnitude. As a result, the value of trade declined more and more.

It is understandable, then, that when the Trade Committee of the Economic Commission for Latin America was created in 1955, the fundamental task assigned to it was to seek ways and means of solving the practical problems that were preventing or slowing down the expansion of intra-regional trade. The problems were primarily two in number: that of payments, and that of the diversification and expansion of reciprocal trade.

This brings us to a stage which could be defined as having multilateralism and liberalization of trade as its objective. As was inevitable, the Montevideo Treaty, which emerged as an intermediate and sub-regional solution in the movement towards the formation of a great Latin American Common Market comprising all countries in the area, was affected by the trend of developments. Because of special circumstances, no solution was reached on payments problems; on the other hand, through the free-trade area, a multilateral system for trade in goods was established. At the time of signature, the Treaty was considered to be a multilateral trade agreement, but no more, by those who advocated the more restrictive or less ambitious approach. It was fundamentally designed to intensify and diversify trade within the region, within the general perspective that the market to be established would be a multilateral and competitive one, and that industrial expansion would almost automatically be generated and would spontaneously be of benefit to all the member countries. I should like to say that at that time no serious consideration was given to the possibility of planned development of the area in the manufacturing sector. Documents dating back to that period contain phrases that bear out this, providing for the free play of economic forces and the natural harmonization of the various national interests.

The Montevideo Treaty reflects the attitude and the opinion prevailing at that juncture. And so, although it sets forth certain principles and objectives that indicate the governments' intention to establish a more comprehensive system of economic co-operation, and even perhaps a common market or regional community, the Treaty sets forth compulsory rules only in respect of the trade liberalization programme.

With the signature and implementation of the Treaty, multilateralism was attained and the process of establishing a great free market then moved into its second stage.

It soon became apparent, however, that this objective of a great free market was not easy of attainment. The trade negotiations for the granting of concessions aroused the fears of certain producers who considered that they were unfavourably placed to compete. As a result, there was increased resistance to the granting of duty-free treatment when the second round of trade negotiations took place in 1962 and other opinions began clearly to emerge. It was pointed out that from the purely commercial point of view the basis for action of each country was very different, and that foreign trade mechanisms differed; that customs tariffs and complementary protective measures showed such substantial divergencies that it was difficult to make a proper assessment of the trade prospects generated by tariff concessions. In the light of these differences, the idea gradually took shape that the ultimate objective of the process was not

simply the formation of a wide market, but the attainment of balanced economic development throughout the area, and that to that end it was necessary to co-ordinate the economic policies of the member countries as closely as possible. Little by little, the governments came around to the view that the real objective was the overall economic integration of the area through the establishment of a true economic community. Then came the period of activities designed to harmonize policies in each of the fundamental fields and to prepare the bases for the future Latin American Common Market.

These ideas were embodied in Resolution 100 of the 1964 Bogota Conference, in which it is clearly stated that the fundamental objective of LAFTA is the harmonious economic development of the area on the basis of an equitable distribution of benefits and having regard to the various levels and possibilities for development of the economies of the various contracting parties.

These criteria are expressed and actively supported by the senior politicians in the member countries and have resulted in the proposal to bring the action of national executives into the framework of LAFTA through the formation of a Council of Ministers and other complementary institutional arrangements. At the present time, it seems to be an established fact that economic integration is considered to be of essential importance for regional development, and perhaps the only way of giving the general economy of the area the multiple boost that it needs to overcome the negative action of what Raul Prebisch has described as the principal common denominator of the Latin American economy - namely the notorious dynamic inadequacy of the economic system which prevents it from attaining a satisfactory growth rate. One result of the recognition of these facts has been the decision of the Ministers for Foreign Relations to participate directly and personally in the activities of LAFTA; another is that the subject of economic integration is to be one of the two fundamental items in the agenda for the meeting of Heads of State to be held this year.

We are directly engaged in a third and definitive stage, the objective being the overall integration of regional economies as an instrument for balanced development of the area. An ambitious objective, if you like, but a real and sincerely established one; an objective which is perhaps remote, but is tangible.

If we come down from the theoretical plane to that of realities, we can see that, as happens in all great multi-national arrangements or initiatives, the development of LAFTA has known arduous and difficult stages, resolute progress and at the same time growing difficulties. This aspect has been the subject of

much discussion and often of severe criticism about the scope and functioning of the mechanisms used. And, although the final balance, for each of the stages, is naturally a subjective matter, one can nevertheless draw some conclusions in regard to the positive results of the work of LAFTA in the very short period that it has been in operation.

First of all, I would say that the initial objective was achieved with the signature of the Montevideo Treaty - in other words, the consolidation as between the member countries of the traditional trade between them that was being hampered by the mechanisms operating in recent years. In addition to this consolidation of traditional trade flows, there has been a substantial diversification in reciprocal trade through the inclusion of new products - primary products, intermediate products and finished goods - in the reciprocal trade lists. Although this is not clearly apparent if one looks at the overall statistics, it is undoubtedly an important factor at the level of a given industrial sector or undertaking. By way of example, I may mention that between 1962 and 1964, intra-regional trade in chemical products increased three-fold; trade in machinery and heavy transport equipment has increased five-fold; trade in office machines, which was insignificant in 1961 and the years before that, has now passed the \$4 million mark; and the same could be said of many other items.

In overall terms, trade within the area increased by 120 per cent in the period 1962/65, from \$659 million in both directions in 1961 to the record level of \$1,403 million in 1965, thus reversing the negative trend that had been apparent from 1956 on.

In addition, a whole series of common instruments have been created that are essential for the integration process. In the statistical field, a system has been introduced for recording data and information essential for the supervision and evaluation of reciprocal trade flows. The great diversity of national tariffs from the structural point of view is rapidly being replaced by harmonization based on the Brussels tariff nomenclature, and at the same time the adoption of a common nomenclature (NABALALC) has made it possible to use a common terminology in negotiations and statistics. A new and important step shortly to be taken will be the preparation of the customs tariff nomenclature to serve as the basis for the draft common external tariff, one of the fundamental objectives of LAFTA at the present time, and with a view to this the necessary mechanisms have been introduced and the appropriate material has been prepared.

Draft agreements have been drawn up or are in an advanced stage of preparation to cover specific fields of regional relations, for example maritime and river transport, settlement of disputes between contracting parties, and free movement of persons.

After several years of hard work, a mechanism is now in operation to provide for multilateral compensation and reciprocal credits in convertible currencies, by arrangement between pairs of central banks. Not only has this begun to solve a problem that had seemed insuperable within LAFTA, but it has also laid the foundations for a system that would multilateralize credits and establish close links between the official financial systems of the member countries.

The commercial banks, which had hitherto been isolated from one another, have taken an active part in the introduction and application of this scheme, and last year the subject of insurance was taken up.

In the industrial field, intensive research and investigation is going on in essential sectors such as, iron and steel, petro-chemicals, etc., with a view to compiling the data and information needed for the study of effective integration formulas.

The major problem of differences in the degree of development of member countries has been the subject of detailed examination in LAFTA. This matter is directly related to the efforts being made in this GATT Committee and it shows that the principles that our countries are defending so vigorously in international organizations are perfectly consistent with the principles governing the regional integration process. The Montevideo Treaty expressly recognized that special consideration had to be given to the situation of countries within the area that are in a relatively less advanced stage of economic development; it makes provision for a series of measures to take this into account, through the granting of concessions that are not extended to other member countries, or through special permission to carry out contractual commitments in a more favourable manner. This initial régime was further extended by subsequent resolutions adopted by the Association's organs, thus establishing a legal framework that could be considered complete and on the basis of which individual or collective measures can be adopted for the benefit of those countries. Finally, with the objective of dealing with more practical matters, special study groups have been established to help the relatively less-developed countries to identify those productive activities that are likely to stimulate their development, having regard to market possibilities within the area.

Also in a pragmatic direction, recognition has been given to the special situation of countries which might encounter difficulties in installing or expanding specified industries, because of the smallness of their national markets, and general rules and mechanisms have been established with a view to solving these problems gradually. Of course, much remains to be done in this regard, particularly in the field of political decisions. But if one recalls, for example, the long period of activity of Committee III of GATT, which has now been replaced by this Committee on Trade and Development, the results of its work, the cases and methods of application of Article XVIII of the General Agreement for the benefit of developing countries, and the efforts made in UNCTAD to the same end - if one compares all this with the experience and achievements of LAFTA the latter will surely not come out unfavourably. Accordingly, we believe that the proposals that our countries are making repeatedly with a view to achieving better conditions for world trade as a whole are well justified.

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To sum up, something has been achieved, one might even say a considerable amount. One might say that, in the event, more progress has been made than had been expected by many of the drafters of the Treaty. It must be recognized, nevertheless, that the process of fundamental decision-making is far from complete - that process which is reflected in the adoption of measures representing a definitive commitment to go beyond the point of no return. The great problems that always beset us still remain, and are perhaps more threatening than ever, and it is not easy to determine the right direction to take at each crossroads.

It would take too long to enumerate all the matters requiring proper solution in LAFTA, some of them urgent ones. But there are some key problems which to some extent affect all the others

First, the formation of the regional market through trade liberalization which is an essential condition for any integration process. Progress towards this objective has been hampered by pressure from vested interests and by the reluctance of some sectors to permit competition from foreign industry in their own market. This defensive attitude is further supported by the fear of losing potential opportunities for expansion. It is even maintained that it would be undesirable to grant concessions on goods not produced in the national territory, because by doing so one might limit possibilities for establishing that particular industry in the country. Furthermore, all these opinions and many other restrictive attitudes cite as justification the complexity of negotiating on a product-by-product basis and of applying different mechanisms for the regulation of foreign trade.

Consequently, it is now considered necessary to advance resolutely towards the formation of a customs union through a process of automatic tariff reductions and the equalization of charges applied vis-à-vis third countries. Both decisions are difficult to take: the first because it would oblige producers in the area to face competition to which they are not accustomed; the second because some countries fear that the adoption of a common external tariff would cause a substantial increase in present levels of duties and charges and a substantial modification of their external trade régimes.

These two topics are perhaps the fundamental ones in the Association's programme of work for this year

Another major problem is to define how and by means of what instruments the essential objective of the process can be attained, implying an equitable distribution of the benefits of integration. Measures in favour of the relatively less-developed countries, recognition of the situation of countries with too small a market, special consideration for their situation in the sector studies, the tendency to give priority to these countries for drawing on certain international sources of credit that are willing to finance integration projects - all these are no doubt steps in the right direction but they do not seem sufficient to solve the problem entirely, particularly if account is taken of the shortage of financial resources that is characteristic of the area. In this field, however, new solutions are constantly being sought in order to co-ordinate efforts and investments so as to channel productive activities as a whole in the right direction

Lastly, there is the problem of institutions. The dynamics of the integration process require major decisions by the countries involved in it. The objective of the economic community, which is clearly visible at the present juncture, requires total and continuing political support from the governments and also the definition of the most appropriate institutional mechanisms to direct and administer the process properly.

This is a delicate matter on which opinions are not unanimous because it affects international policy and touches directly on the problem of the relationship between collective action and national sovereignty. There has been a great deal of discussion on this question in LAFTA because it embodies all the problems facing the Association.

I should like to thank the Chairman for having so kindly invited me to speak here and I hope that my brief remarks will have enabled the eminent representatives here present to understand better the direction and objectives of the integration process in which our countries are resolutely engaged.