THE RISE AND THE DECLINE OF LATIN AMERICAN ECONOMIC INTEGRATION

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There is no good faith in America,
nor among the nations of America.
Simón Bolivar (1829).

I

Bolivar's words (quoted above)—they referred to the state of Latin American political cooperation two decades after the beginning of the insurgency against the Spanish Empire—describe fairly well the present stage of that process of Latin American economic integration which had started in an atmosphere of big expectations and official enthusiasm in the late 1950s. The Latin American Free Trade Association (LAFTA), established in 1960 with the active assistance of the UN Economic Commission for Latin America (ECLA) and leading technocrats in most of the region, has just publicly acknowledged its failure. The Central American Common Market (CACM), which originated in a treaty signed in Tegucigalpa, Honduras in 1958 and looked for a long time to be the most successful common market in the whole underdeveloped world, now lies in a shambles as the result of the ludicrous armed conflict between two of its five members—Honduras and El Salvador. A new subregional integration scheme is emerging along the Pacific coast under the name of the Andean Common Market (with the participation of Colombia, Ecuador, Peru, Bolivia and Chile, all of them LAFTA members), and the former British West Indies have signed a treaty establishing a Caribbean Free Trade Area (CARIFTA) regardless of the fact that, less than three years ago, all the heads of Western Hemisphere states (with the exception of non-participating Canada and abstaining Ecuador) solemnly committed themselves to the setting up, by 1985, of the Latin American Common Market. A mention of the 1967 Punta del Este conference of American presidents,

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hailed at its time as a major breakthrough in the acceleration of regional economic cooperation, is considered these days in Latin America as being almost as tasteless as a revival of the memory of the Kennedy Alliance for Progress would be in the Washington of President Nixon.

In spite of this overwhelming evidence that not only the regional common market has never taken off, but also that LAFTA and CACM crash-landed after the early and apparently successful take-offs, few local commentators appear willing to admit the extreme seriousness of the situation. This is due, primarily, to the fact that it is completely contrary to the Latin American political ethos to blame oneself for a failure. Since, in the case of the regional economic integration movement, the blame for its misfortunes can hardly be put at the doors of either the 'imperialist Colossus of the North' or at the 'international communist conspiracy', public discussion of this subject is rather less than frank, oscillating as it does between two opposing schools of thought. The first, composed of many long-time advocates of regional cooperation, holds that both LAFTA and CACM are passing through a series of major crises which might well endanger their futures. The second, led by spokesmen for the LAFTA and CACM secretariats and other Latin American institutions—such as the Inter-American Development Bank—which are deeply involved in plans for integration, suggests that the present difficulties are only 'growing pains' which will pass eventually, if only because integration is vital to the economic development of the region. To complicate the picture even further for the unsophisticated public, high officials in some Latin American republics continue to express their confidence in the future of integration, while qualifying their support with statements to the effect that domestic interests and objectives must have clear priority over regional growth and cooperative goals: yet others hold that all difficulties in the field of integration should be handled with kid gloves for fear of damaging the little that has so far been achieved.

Thus, barely a decade after the first experiments with regional integration were launched in the midst of general applause, conflicting opinions lead one to speculate as to the future path of Latin American progress. The available factual evidence suggests that with regard to integration, as unfortunately with regard to all major economic policy matters, Latin America is drifting aimlessly under the mounting pressures of unsolved internal and external problems. It is therefore extremely difficult to predict where the region will find itself, not just by 1985, when according to the 1967 Punta del Este agreement a Latin American common market was to be established, but even by 1980, the new date set for LAFTA's becoming a fully fledged free trade zone. This uncertainty about the short and middle term future is rooted in the failure, since World War II both of Latin America as a whole, and of the majority of its component Republics either to undertake or to implement successfully long overdue economic, social and political reforms. Unable to resolve the problems inherited from the past, Latin America is thus poorly equipped to deal with those which are emerging in a world characterized by technological revolution, rising consumer expectations, and demographic explosion.

It is not that Latin America did not witness economic growth in the past two decades. The region's gross national product has increased about three times in real terms since 1945 and an impressive degree of industrialization has been achieved by the large and middle-sized republics. But the area's population doubled in the same period and in most places growth did not translate itself into development. In socio-political terms the Latin America of the late 1960s is probably the most traditionally minded and conservative part of the world. As a leading Chilean political scientist put it recently:

> In spite of its reputation for frequent and violent upheaval perhaps the principal contemporary problem of Latin America is excessive stability. There exists in the region a resilient traditional structure of institutions, hierarchical arrangements, and attitudes which conditions every aspect of political behaviour and which has survived centuries of colonial government, movements for independence, foreign wars and invasions, domestic revolutions, and a confusingly large number of lesser palace revolts. More recently it has not only successfully resisted the impact of technological innovation and industrialization, but appears to have been strengthened by it.[1]

This social and political stagnation breeds an apparent inability to approach external and domestic economic difficulties in a modern and rational way. It is also largely responsible for the present serious crises in the ambitious attempts at regional integration which seemed to have such a bright future less than ten years ago.

II

The idea of economic cooperation was born during the 1950s in the minds of a particular coalition of Latin American technocrats and reformist politicians. Experts recruited from the region by ECLA, led by Raúl Prebisch, then the commission's executive secretary, looked upon economic integration as a potentially powerful development factor in two senses. They postulated first that it would stimulate the abandonment of a traditional primary commodity export trade and, secondly that it would help modernize the Latin American economies by forcing them to specialize within the framework of an expanded

[1] Claudio Véliz in his introduction to *Obstacles to Change in Latin America* (London–New York–Toronto, 1965), p. 1.

and protected regional market. The general ECLA proposition was phrased convincingly:

> Latin America's basic long-run development problems can be solved only if the following fundamental fact is recognized: Latin America, however great assistance it receives, however high the rate at which its exports expand—and they cannot do so very rapidly—will be unable to carry out its development plans, will be unable even to regain the rate of growth achieved in the ten post-war years, unless it makes a sustained effort to establish within its own territory the capital goods industries of which it is in such urgent need today, and which it will require on a large scale during the next quarter of the century. . . . In order to produce these capital goods and develop all the intermediate goods industries required to launch these highly complex dynamic industries . . . Latin America needs a common market.[2]

While accepting ECLA's general development theses, some individual political figures also saw in economic integration an important vehicle that would permit them to redress somewhat the lack of balance in hemispheric political relations. By the mid-1950s economic growth in most of Latin America, induced largely by World War II and sustained by the international commodity boom during the Korean conflict, petered out; at the same time the chief member of the inter-American system, the United States, continued to pay little attention to the development problems of the region. Thus, it was thought, closing the ranks and fostering intra-regional economic cooperation would force the U.S. to change its policy towards the area.

Beset by foreign trade problems, lacking external capital assistance and moved by the idea of spiritual and cultural unity, Latin Americans found the proposals for regional cooperation attractive. Between 1958 and 1960 the Central Americans established their common market. At the same time, in a parallel but geographically broader movement, six South American republics (Argentina, Brazil, Chile, Paraguay, Peru and Uruguay) and Mexico opted for a free trade zone scheme that would—it was hoped—evolve during the 1970s into a common market covering the whole subcontinent. Drawing upon the example of Western Europe, both schemes put an accent upon trade liberalization as a vehicle for regional division of labour. The Central American arrangement provided for the creation of a common market by 1966 for all but a few commodities. The Latin American free trade zone was to be set up by 1972, through annual product-by-product tariff negotiations.

The Central American regional cooperation scheme provided not only for commercial but also for financial, monetary, fiscal and industrial cooperation. In the early 1960s, an impressive array of institutions supporting the common market emerged in the area,

[2] *The Latin American Common Market*, UN Publication No. 59.II.G.4, New York, 1969, p. 1.

among them a regional development agency (the Central American Integration Bank), a monetary council, a clearing house, and an industrial research institute. While these agencies worked with relative efficiency, coordination of major economic policies, particularly in respect to the siting of new industries and the common treatment of foreign investment, has proved very difficult. The inability to reach agreements in the key field of industrial cooperation, partly because of an absence of national economic planning mechanisms in Central America and partly because of the opposition of powerful external political and economic interests, proved in the late 1960s to be the major source of CACM's difficulties.

The LAFTA agreement (known as the Montevideo Treaty) was less specific in respect to non-commercial cooperation mechanisms. However, it did commit the participating countries—whose initial number of seven increased to eleven by 1968—'to facilitate increasing economic integration and complementary economies' by making 'every effort to reconcile their import and export régimes, as well as the treatment they accord to capital, goods, and services from outside the Area'. Furthermore, the Montevideo Treaty envisaged 'progressively closer coordination of the corresponding industrialization policies' through agreements 'among representatives of the economic sectors concerned'. Very little, however, has been achieved in these fields during the first eight years of LAFTA. No regional agreement about the coordination of foreign trade and industrialization policies has been reached and none is in sight. Neither was it found possible to agree upon a common treatment for private foreign capital. Only a few agreements designed to make industrial developments complementary, by specialization of production in individual industrial branches with concomitant freeing of trade for their output, have been signed. Only one of them (covering chemicals and signed in 1968) deals with an important industry. While some degree of cooperation was achieved in respect to the multilateral clearing of regional trade balances and maritime transport, these agreements had very little impact upon the expansion of intra-LAFTA trade and no effect whatsoever upon the acceleration of regional economic growth.

The achievements of CACM and LAFTA have been measured to date mainly by the growth of trade within their respective areas. Consequently, by 1968 it appeared that the Central American Common Market was an unqualified success whereas the Latin American free trade zone was making only slow and hesitant progress. In fact, trade within Central America responded to the establishment of a common market with amazing dynamism. Regional trade flows, measured in terms of imports, increased from U.S.$37 million to $259 million between 1961 and 1968, or by about 35 per cent a year. About two-thirds of intra-Central American trade consists of manufactured, mainly consumer, goods, pointing to a significant diversification of zonal commerce and the progressive although limited impact of the common market upon the region's production structure.

Latin American Free Trade Association trade achievements are much less impressive. The signing of the Montevideo Treaty was followed by five years of a relatively rapid intra-regional trade expansion, partly in response to early progress in tariff negotiations. By 1966 intra-LAFTA export trade (excluding Bolivia and Venezuela who joined the scheme in 1967) exceeded U.S.$700 million (10 per cent of the member countries' total export trade) as compared with $300 million (6 per cent) in 1960. The regional trade of some newcomers—Mexico, Peru and Ecuador—grew very rapidly from the low levels registered at the end of the 1950s. The bulk of commercial exchange continued to be concentrated in the three southern republics—Argentina, Brazil and Chile—which had a long tradition of reciprocal trade and still account today for close on three-quarters of intra-LAFTA trade. In spite of the impressive number of tariff reductions (exceeding 11,000 by the end of 1969), very little was achieved in respect of regional trade-product diversification. In 1967 foodstuffs and the other primary products traditionally exchanged by South American republics still represented something like 70 per cent of intra-LAFTA trade. But the biggest setback to LAFTA was that regional trade almost ceased to expand in 1967 and grew only slightly (by 10 per cent) in 1968. It has stood at slightly over $700 million in 1967 and at some $780 million in 1968, although LAFTA trade with the rest of the world has continued to register healthy growth rates.

From the statistics it might seem that while the rapid setting up of a common market in Central America proved an efficient way of accelerating trade and growth within that small area, the trade liberalization measures of the Montevideo Treaty were too weak to produce a similar effect within LAFTA. But it is not only LAFTA which became progressively paralyzed at the close of the 1960s; the CACM faces even more serious difficulties as the result of the Honduras–El Salvador war, directly related to the growing social crisis in the area. One is led to suspect that although regional trade liberalization programmes may be necessary to stimulate economic growth, they do not by themselves guarantee much to the underdeveloped participants in such schemes.

III

A close analysis of the CACM's experiences before the outbreak of the war in the area suggests that the positive impact of common market arrangements of a traditional type upon the economies of its underdeveloped member countries has been over-publicized. In the absence of joint or even national long-term development policies, particularly of an industrial and fiscal type, the establishment of a common market brought relatively little real growth to Central America, all the impressive figures on intra-area trade notwithstanding. Some independent sources estimate that only 1 per cent of the annual 7 per cent average growth rate in the GNP between 1961 and 1966 resulted from common-market-induced activities. The setting up of a regional trade barrier considerably higher than the previous tariffs of the individual countries did not lead to serious industrialization but rather to the rapid expansion of all types of 'final-touch' industries in the integrated area. Many consumer goods imported in finished form before 1960 are now imported in parts or at intermediate stages in production. After undergoing final processing (bottling or packing only in a few extreme cases) they circulate in the region as 'Central American' manufactures.

The high regional protection offered to finished goods, the low tariffs extended to raw materials and intermediate products, the race of CACM member countries for 'new industries', together with the oligopolistic structure of the market, led to an impressive expansion of intra-regional trade in manufactured goods at a considerable economic and social cost to the area. Among the economic costs of this particular type of regional integration are a rapidly growing bill for imports from third countries, a decline in fiscal revenues, high prices of new regional 'manufactured goods', and the exorbitant profits accruing mainly to foreign-owned manufacturing enterprises which moved massively into CACM, once they became aware of the profitability of the new ventures. To make matters worse, the haphazard industrialization that followed the emergence of CACM led to political complications by accentuating differences in intra-regional development levels. Most of the new 'final-touch' industries settled in the more advanced countries —Guatemala and El Salvador—which, followed by Costa Rica, became the principal exporters of manufactured goods to the area. Since the liberalization of agricultural trade proved an intractable issue, the two least developed members—Honduras and Nicaragua—found themselves in an uncomfortable situation. They became markets for expensive manufactures from the rest of the region while being unable to increase by much their intra-regional exports of traditional non-competitive agricultural commodities.

As long as the over-all balance-of-payments position of Central America was satisfactory relatively few complaints about the growing imbalance in regional development and trade were heard. But by 1966 the area found itself facing a major payments problem *vis-à-vis* the outside world. The rapidly growing import bill was due both to CACM industrialization and to the high level of imports of luxury goods. This latter reflected the extremely unequal income distribution in the area, symptomatic of its social backwardness. Subsequently the CACM ran into heavy criticism from its less developed members. The unequal distribution of benefits accruing from integration became the key issue and Honduras and Nicaragua began to press the rest for special concessions. The conflict became exacerbated when the attempts to deal with the regional balance-of-payments difficulties, through tariff surcharges on most imports from third countries and an equalized consumption tax on a large list of luxury commodities of regional origin, met with opposition from Costa Rica, dictated by purely domestic political considerations. In early 1969 Nicaragua, which had accumulated a sizable commercial deficit within the region and was unable to export agricultural goods to neighbouring countries, introduced—without warning and in clear contravention of the CACM treaty—levies on regional imports. It lifted them only after the other members ratified the pending regional protocols. The most important of these was a protocol for the equalization of fiscal incentives, its absence in the original treaty having permitted the initial free-for-all to attract foreign industrial investment.

A few months after the Nicaragua-induced crisis had been solved, a war broke out between El Salvador and Honduras that put the whole future of the CACM into question. Since most probably little attention is given in Europe to this armed conflict between two small 'banana republics', a few words about its origin are in order. Whereas CACM has brought about the freeing of almost all regional trade, capital movements have enjoyed considerable freedom in Central America for a considerable period of time—in spite of monetary restrictions, imposed from time to time in some CACM member countries. However, the issue of free movement of labour, considered a political and security problem, has never been discussed or resolved by the various institutions working towards integration, although a considerable free movement of labour—largely illegal—has been taking place in Central America since the 1930s. It consisted mainly of the outflow of unemployed rural and urban labour from tiny overpopulated El Salvador to Honduras, and to lesser extent to Nicaragua and Guatemala. The majority of Salvadoran rural squatters have been settling for several decades in the empty but fertile hinterland valleys of Honduras. The ensuing frictions were kept under control until 1969 when the economic growth of Central America, helped by CACM but unaccompanied by social reforms, led to severe social tensions both in the overpopulated but relatively rich—in terms of *per capita* income—El Salvador, and in the undersettled and extremely poor Honduras. According to the best Central American tradition, from which only Costa Rica stands out as an exception, both countries happened to be run by military regimes on behalf of large landowners. In the face of the growing domestic unrest, the Honduran military opted in favour of land reform to alleviate tension among the landless peasants. Since the politically most viable land reform was obviously that which would not affect local landed interests, those parts of the country inhabited by Salvadoran squatters proved to be the most logical sites for the implementation of this reform. The preparatory stages of this land reform in Honduras lasted long enough to give the military counterparts in El Salvador time to prepare countermeasures.

In July 1969, the Salvadoran army launched a *blitzkrieg* against Honduras that was expected to repeat the Israeli feats during the Six-Days War in the Middle East. But Salvadorans proved not to be Israelis and, quite unexpectedly, the Hondurans were no Arabs. While El Salvador's army got stuck across the border, the conflict became particularly bloody on both sides with the Salvadoran illegal population in Honduras bearing the brunt. The outbreak of hostilities took practically everybody by surprise, although it is understood—from very well informed Washington sources—that the U.S. was well aware of the coming armed clash. Since no Communist or Castroist threat was apparent on either side, the U.S. is reported to have decided on a hands-off attitude. The armistice finally imposed on both sides by the OAS—but frequently broken by border skirmishes—came too late to prevent a severe undermining of CACM. Not only was there a complete suspension of trade between the belligerents, but Honduras put an embargo upon transit trade between El Salvador and Nicaragua and Costa Rica. Moreover, the operation of the majority of CACM agencies came to a virtual standstill. Almost a year after the outbreak of war the economic blockade of El Salvador is still maintained successfully, while many of the agencies for integration remain paralysed. While in late 1969 it seemed that the attempted arbitration by Guatemala, Nicaragua and Costa Rica, aimed at restoring the economic and trade cooperation existing in the area before the war, was making some headway, the absence of tangible progress in the political settlement of the Honduras–El Salvador conflict increased the long-term dangers to CACM considerably. Moreover, as should have been expected, the war did not solve anything and the price paid by both parties for diverting public opinion from real local, social issues seems very heavy. Most of the Salvadoran economy is reported to be paralysed, since that country's industrial capacity depends to a considerable extent upon access to CACM members' markets. At the moment El Salvador's regional export trade is limited to Guatemala and to the shipping of some goods by sea to Nicaragua and Costa Rica at considerable extra cost. Honduras, on the other hand, paid for its victory with an extremely serious financial dislocation.

The bleak economic future forecast by all CACM members permits some economic observers to hope for an early solution of the conflict. But even if peace is restored to the region, the CACM will, for a long time to come, work under severe handicaps. Memories of the war together with the continuing long-simmering conflict of economic interests between the more developed CACM members (Guatemala, El Salvador and Costa Rica) and the poorer ones (Honduras and Nicaragua), will reinforce nationalist attitudes in the individual countries, and skilful negotiation will be needed to keep CACM alive. Moreover, while the issue of equal benefits for all member countries may somehow be resolved, yet another one continues to overshadow the area. Both the Central American left and many local conservatives insist with growing vehemence that whatever gains from CACM may accrue to the region, foreign industrial investors are the principal beneficiaries of the common market arrangement. Given the force of nationalism in the underdeveloped countries, such a frame of mind can hardly be considered conducive to an orderly future for the Central American scheme for economic integration, especially in view of the fact that, ten years after the setting up of the common market, the area is socially and politically as backward as before. The message seems to be clear. Economic integration is a poor substitute for socio-political reforms.

IV

Latin American Free Trade Association is not a success story either. Within LAFTA, disenchantment began even before intra-regional trade stopped growing in 1967. From 1964 onwards a number of attempts to accelerate the implementation of the non-trade commitments of the Montevideo Treaty were made by the main proponents of regional integration, including President Eduardo Frei of Chile, Raúl Prebisch, and Felipe Herrera, the head of the Inter-American Development Bank. These initiatives led to the establishment of LAFTA's Council of Ministers and indirectly to the conference of American presidents, held at Punta del Este in the spring of 1967. But after two meetings, the Council of Ministers ran out of ideas, while the Punta del Este declaration calling for the establishment of a

Latin American common market was quietly shelved. External and regional political difficulties proved stronger than the superficial idea of Latin American solidarity.

The Latin American Free Trade Association's inability to proceed on schedule with the original commitments of the Montevideo Treaty was finally admitted openly in mid-December 1969, when the so-called Caracas Protocol was signed at the Ninth Annual Conference of LAFTA's Contracting Parties. The Protocol postpones, from 1973 to 1980, the establishment of a free trade area between eleven Latin American republics; it slows down the pace of tariff negotiations by committing each LAFTA member country to making annual tariff cuts equivalent to only 2·9 per cent (formerly 8 per cent) of weighted average of duties applicable to all imports; and it suspends the implementation of the so-called common list of products freely traded until at least 1974, the date by which negotiations toward a 'new stage' of LAFTA are to begin. It is no secret in Latin America that the Caracas Protocol represents a victory for the three major countries (Argentina, Brazil and Mexico) who have lost interest in all but the purely commercial aspects of regional economic integration and who assume—perhaps correctly—that the point reached in tariff cuts assures them enough room for export expansion in the area for some time to come without forcing them to undertake any non-commercial commitments toward the less developed LAFTA members. Significantly, the Caracas Protocol makes only a token reference to a common market by resurrecting two rather nebulous articles of the Montevideo Treaty which encourage 'creating conditions favorable to the establishment of a Latin American Common Market', and 'adapting [LAFTA] to a new stage of economic integration'. The Protocol sets no deadline for the setting up of a common market.

While there are many reasons for LAFTA's disappointing performance and the clear lack of enthusiasm for a common market, some of them are particularly important. One is the ambitious geographical scope of LAFTA. In the name of a Latin American community of interests, economies of all sizes and levels of development were put under one roof. In spite of highly publicized declarations of regional solidarity, the events of the last few years proved that each of the three groups within LAFTA (the industrial 'giants'—Argentina, Brazil and Mexico; the middle group led by Chile, Colombia and Venezuela; and the most backward republics—Bolivia, Ecuador and Paraguay) faces specific problems which hardly lend themselves to joint action. All the major conflicts that arose in LAFTA involved the economic relations among these three groups. The poor members and the middle group insist quite correctly that they are getting little, if anything, from the regional free trade scheme and are, in fact, running the risk of becoming markets for the industrial surplus of the 'big three'. And while Argentina, Brazil and Mexico are obviously interested in markets in neighbouring countries, their dependence on exports to the rest of LAFTA is not great enough to force them to grant those unilateral commercial and other concessions for which the less fortunate republics have asked persistently. Recently Argentina made it clear that its interest in LAFTA and any future regional common market is limited strictly by considerations of domestic economic developments. While Brazil and Mexico abstain from making public statements, their position is basically similar.

While the differences in economic development levels within the LAFTA group may be the main reason for its disappointing performance, a second obstacle has its roots in the flaws in the ECLA doctrine that served as the rationale for the establishment of a Latin American free trade zone in 1960. ECLA claimed, though events of the 1960s have proved it wrong, that the Latin American countries must integrate because import-substitution on a national level had run its course by the mid-1950s. But the post-LAFTA experiences of the 'big three' and of some of the middle countries have shown that rational industrialization programmes can continue in Latin America for a considerable time without an increase in the level of protection. In response to the differentiation of domestic demand for industrial inputs and final goods, new manufacturing establishments continue to spring up in Argentina, Brazil and Mexico ten years after the ECLA's declaration that this type of industrial growth was running into a blind alley. Eventually, perhaps within another decade, these large republics may encounter the difficulties predicted by ECLA, but as long as the constraints upon industrialization for the home market are not too severe, some outlets for manufacturing exports are found elsewhere, and the nationalist ideology remains strong, none of these three countries will see a manifest necessity to support LAFTA fully.

The possibilities of continuing such inward-directed industrialization in the middle group of countries are somewhat more limited. This may explain in part their interest in an Andean subregional common market, a project under negotiation since 1966 and subject to a formal treaty, signed at Bogota, Colombia in July 1969 by Bolivia, Colombia, Chile, Ecuador and Peru. At the last moment Venezuela opted out of the Andean scheme, proving that the private sector in that republic believes that national industrialization programmes are still feasible in most places regardless of the market size, extent of natural resources, and the high cost of modern technology. Industrial entrepreneurs in Venezuela have been very vocal in their opposition to the Andean scheme, predicting a major national disaster if Venezuelan borders were to be opened to the 'cheap labour' products of neighbouring countries. There is little reason why industrial interests in Venezuela should think otherwise. After all they are reaping very handsome profits behind high protective barriers, and, in traditional and conservative Latin America, profits and national interest are easily equated. Moreover, Venezuela represents a particularly interesting case of close cooperation between local industrial interests and U.S. exporters. In exchange for special treatment for Venezuelan oil in the U.S., Venezuela grants special tariff concessions to U.S. goods. At the same time the high degree of participation by U.S. capital in Venezuelan manufacturing activities is growing. Under such conditions Venezuela's entry into the Andean arrangement makes little sense both to local and U.S. economic interests. It would only expose the country to the competition of the third countries at a possible loss either to U.S. exporters to Venezuela, or to U.S. manufacturers in that country, or their Venezuelan partners, or to all three groups.

Paradoxically, the third major obstacle to regional cooperation arises from the improvement in the international commodity trade picture, registered in recent years under the impact of conditions of economic boom in the advanced countries. Contrary to the pessimistic ECLA predictions, the external demand for Latin America's traditional commodities improved considerably in the 1960s. Although the rate of expansion of the region's exports lagged behind that of trade among industrial countries, the results were better than expected. Between 1963 and 1968 Latin America's commodity sales increased by 25 per cent from U.S.\$9,200 million to \$11,400 million. If Venezuela's oil exports, which behaved sluggishly over the period, are excluded, the five-year increase in export revenue of the region amounted to 30 per cent. The improvement of the export picture made internal industrialization efforts much more attractive politically than the alternative negotiation of regional industrial cooperation schemes that might have affected certain powerful interest groups in individual countries. As at other times and in other places, once the atmosphere of the external trade crisis that was hanging over Latin America ten years ago began to dissipate, long-term problems were conveniently forgotten.

The preference shown in the capital exporting countries for the practices of tied public loans and of private suppliers' credits in lieu of untied public foreign aid, only strengthened the propensity of Latin American countries to think in terms of national inward-directed development and industrialization. Whatever their external payments situation might have been, Latin American republics were swamped in the 1960s with offers of external credit for individual industrial projects involving imports of capital goods. These offers were readily taken up, with the result that the duplication and overlapping, previously characteristic of primary activities in the region, was extended to the industrial sector. With new, high-cost, foreign-financed, self-contained industrial plants springing up even in the most backward countries, economic integration became more rather than less difficult to attain during the present decade.

The absence of coordinated aid policies toward Latin America among the donor countries, and the U.S.'s lack of interest in supporting LAFTA politically and financially created another important obstacle to integration.[3] Through its aid agencies the U.S. gave financial support to the CACM from the very start. The CACM members agreed in turn to accept the 'proper' rules of the game by abstaining from any interference with free market forces and foreign investment. Moreover, the possibility of a political challenge to the United States from the Central American scheme for integration was virtually nil, while the acceleration of growth within the area attracted the U.S. as a possible means of lessening socio-political tensions in a strategically important part of Latin America.

The United States attitude to LAFTA has been considerably more ambivalent. In the 1950s the U.S. gave no support to Latin American integration efforts, even if only because the initiatives came from the ideologically suspect ECLA. With the emergence of the Alliance for Progress in 1960, the U.S. position began to fluctuate between a 'hands-off' policy and one of 'neutral benevolence'. Only in 1965 did the U.S. begin to express qualified support for Latin American integration. In the winter of 1966–67 and prior to the conference of American heads of state, President Johnson offered aid for the readjustment of those economies that might be affected in the process of the gradual establishment of a regional common market. But the U.S. Congress refused to support the executive's offer, and in any case the amount of aid offered was considered by most Latin Americans to be ridiculously small.

This aid, informally promised, has never materialized. The U.S. claims that Latin America's lack of interest in the implementation of the Punta del Este agreement made any external financial help superfluous. The Latin American countries, in turn, point out that they would perhaps be ready to take the Punta del Este common market proposals more seriously if only the U.S. had not backed out of its promises. Obviously, this is mere verbal shadow-boxing. Both the U.S. and Latin

[3] For details, see Miguel S. Wionczek, 'Latin American Integration and United States Policies', in Robert W. Gregg (ed.), *International Organization in the Western Hemisphere* (Syracuse, N.Y., 1968).

America put the matter of broad and serious regional economic integration low on their list of priorities, and both were fairly satisfied with the traditional, bilateral methods of hemispheric aid distribution. Given the attitudes prevalent in the U.S. Congress, the Executive Branch can hardly ask for additional funds for integration. Moreover, in a period of declining aid, the maintenance of bilateralism is not unattractive to the aid-receiving countries. Each of these hopes that it will somehow get more than others because of its 'special' relation with the powerful donor. Besides, since the earmarking of certain funds for integration might affect the amount of bilateral aid available, no Latin American country is willing to press for financial assistance for integration. Thus, traditional aid distribution patterns continue, while both Latin America and the U.S. find themselves in the comfortable position of being able to blame each other for the failure of the agreements arrived at by the heads of state in 1967.

The final major obstacle to LAFTA's efficient functioning and to its evolution toward a regional common market arises from the latent conflict between Latin American societies and foreign private investment, particularly the giant multinational corporations.[4] In many Latin American quarters fears are expressed that, because of their managerial and technological power, these corporations would reap the major benefits from integration, and in the process destroy many weak domestic industries.[5] In principle, these problems might be solved by regional harmonization of policies toward foreign private capital, and by special financial and technical assistance on a regional scale to the domestic industries. In practice, the harmonization of such policies seems a forbidding task. Less developed LAFTA members claim that the introduction of equal regional treatment for foreign investment would result in its concentration in the few large countries. The latter, in turn, insist that offering the poorer republics the right of more liberal treatment for foreign capital, on the top of unilateral regional trade concessions, would result in the swamping of Latin America with manufactured goods assembled by foreign firms in the less developed republics. Unable to resolve this particular regional dilemma, LAFTA members continue to maintain highly varied national foreign investment policies geared mainly to individual industrialization needs. Thus, on the regional level a curious argument emerges. While each country talks about the dangers of foreign domination of the free trade zone or a future common market, only foreign investment

[4] For details see Miguel S. Wionczek, *Lateinamerika und das ausländische Kapital* (Institut für Iberoamerika-Kunde, Hamburg, 1969).

[5] The most recent Latin American official attitude on this subject is presented in the so-called 'Latin American Concensus of Viña del Mar', adopted at a special meeting of the Committee for Latin American Coordination (CECLA) held in Viña del Mar, Chile in May 1969.

located outside one's own national territory is considered to form a threat. And once local foreign-owned enterprises become somehow the extension of national economic power, negotiating battles are fought to give them access to the neighbouring markets. Under such conditions the elaboration of a regional foreign investment policy is more than a forbidding task. It appears an impossible exercise.

V

It has been argued earlier in this paper that many of CACM's difficulties prior to the Honduras–El Salvador war were due largely to an overemphasis on regional trade liberalization on the one hand, and, on the other, to a neglect of joint industrial policies, which would have avoided the economic inconveniences of the spurious 'final touch' industries and assured political satisfaction by 'equal' participation in the industrial process for all member countries. An attempt was also made to identify the major obstacles to the progress of the LAFTA scheme: large differences in development levels in the area; the existence of a sizable margin for national import-substitution policies in the large and middle-sized republics; the defence of the *status quo* by domestic industrial groups thriving behind national tariff walls; the improvement of the traditional export sector leading to a relaxation of the pressure for structural modernization; the aid and credit practices of the capital exporting countries; and, finally, the fear of the predominance of foreign private capital in an expanded regional market. What is the future of Latin American economic integration under these circumstances?

To prophesy that it may take Latin America thirty years to integrate economically because it was disintegrating for a century and a half, as OAS Secretary General Galo Plaza said recently, dodges the issue.[6] Speculating about the shape of the world in the year 2000 *à la* Herman Kahn may be a fascinating intellectual exercise, but those speculations look somewhat idle from the vantage point of the underdeveloped world. By the year 2000 Latin America's population will reach 700 million people as compared with 150 million in 1945 and almost 300 million today. What kind of adjustment in social organization will be needed in the region in face of these demographic developments is anybody's guess. Will a traditionally conceived economic integration scheme run by traditionalist national élites still be relevant to Latin America's social adjustment needs in the year 2000? Will these élites

[6] Galo Plaza is credited with a statement made in early 1969 to the effect that 'the process of economic integration in Latin America will perhaps take three decades; it is, however, a relatively short period when compared with one and one-half centuries of economic disintegration . . .'

still exist, if only because they have happened to be around in different disguises since the early nineteenth century? These Toynbee-esque questions seem impossible to answer.

But if one shortens the time horizon and talks about the next ten to fifteen years, the shape of things to come becomes somewhat clearer. No Latin American common market along the lines of the 1967 Punta del Este agreement is on the cards for 1985. It is also extremely difficult to envisage the substantial strengthening of LAFTA which has progressively degenerated into a weak preferential arrangement, whose main virtue consists in a marginal stimulation of intra-regional trade that perhaps would have been taking place anyway.

Under the LAFTA umbrella two developments are probable: first, the economic *rapprochement* between neighbouring countries like the Rio Plata riparian states (Argentina, Brazil, Paraguay and Uruguay), aimed at a joint exploitation of energy and water resources through binational or multinational projects stimulated by the Inter-American Development Bank; secondly, the setting up of sub-regional common markets among the middle-sized and small underdeveloped countries such as the proposed formation by 1980 of an Andean Common Market. Since there are reasons to hope that, despite periodic crises, the CACM will somehow survive, if only because most of its members are not viable economic units individually, then the best that can be expected is a proliferation of similar groupings in other parts of Latin America. If such groupings prove relatively successful, one might envisage various kinds of arrangements between them and Argentina, Brazil and Mexico. This type of loose economic cooperation is already developing between Mexico and the CACM.

All this falls very much short of ECLA's proposals of the late 1950s and the American heads of state commitments of 1967. While the responsibility for the present decline of economic integration schemes lies mainly with Latin Americans themselves, the actual policies of the advanced countries are of little help too. Moreover, few changes in these policies can be expected judging by the contents of the two recent policy reports, prepared respectively for the U.S. Government by the Rockefeller Mission that visited most of Latin America in 1969, and for the World Bank—by the Pearson Commission.[7]

The Rockefeller Report, widely criticized both in the U.S. and Latin America for a particularly low level of political and economic imagination and for obvious inability to look at Latin America as a region, dedicates exactly three lines to the economic integration issue by

[7] See *Quality of Life in the Americas* (Report of a U.S. Presidential Mission for the Western Hemisphere), Agency for International Development, Washington, 1969, and *Partners in Development* (Report of the Commission on International Development under the chairmanship of Lester B. Pearson), Praeger Publishers, New York, 1969.

stating tersely that 'the United States should lend its support to regional markets as they develop in the area, including participation in regional development banks'. The Pearson Report, a much more impressive effort aimed at analysing the whole structure of the relations between the advanced and the underdeveloped countries, is more specific than the Rockefeller exercise but still looks upon integration attempts in Latin America and elsewhere as of marginal importance though useful. Reflecting the UNCTAD philosophy, the Pearson Commission expresses a belief that the expansion of trade among developing countries on a global level is badly needed and that 'where appropriate, should be supplemented by regional trading blocs'. Consequently, it recommends that bilateral donors and international agencies provide financial assistance to institutions such as development banks and clearing and payments unions which are designed to promote trade among developing countries on a regional scale. It also urges aid-giving countries to give special attention in their aid allocation to projects which have the effect of strengthening old, or forging new, economic links among groups of developing countries. But these are just two out of some 150 recommendations of the Pearson Commission. Moreover, since they are supported with little if any factual analysis of economic integration problems and difficulties of the sort encountered by LAFTA and CACM, the impression is left that not only the Rockefeller, but the Pearson Report group as well, still live in a world of nation-states and not in one of potential economic groupings.

It may well be that this approach represents a realistic appraisal of the strength of nationalism in the developing regions. But such attitudes do not bode well for the future of economic integration schemes in Latin America. Without sizable external assistance and without social and political modernization within the region itself, Latin American economic integration will most probably remain an empty dream for some time to come.