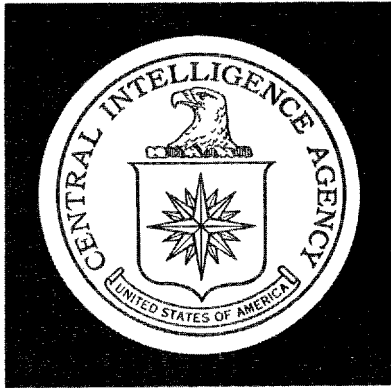


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Progress Toward Economic Integration in Latin America

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PROGRESS TOWARD ECONOMIC INTEGRATION IN LATIN AMERICA

Since the inter-American summit meeting last April, some small steps have been taken toward the goal of Latin American economic integration as set forth in the Declaration of Presidents and the Summit Action Program approved at Punta del Este.

Any real progress, however, must contend with the traditional nationalism and self-interest of many Latin American politicians and with the protectionism advocated by most area businessmen. Few if any of the countries relish the prospect of giving up freedom of action in implementing domestic and foreign economic policies or of abandoning the dream of developing a complete industrial structure. In addition, major problems are involved in reconciling the wide variation of prices and levels of industrial development.

The idea of economic cooperation is, however, attractive to Latin American governments as a means of reversing the decline in their share of world trade and of countering the potential threat of discriminatory policies by the European Economic Community. They believe that creation of a regional market through integration will permit them to speed industrialization and will strengthen their ability to compete with the large economies of the United States and Europe.

Obstacles to Integration

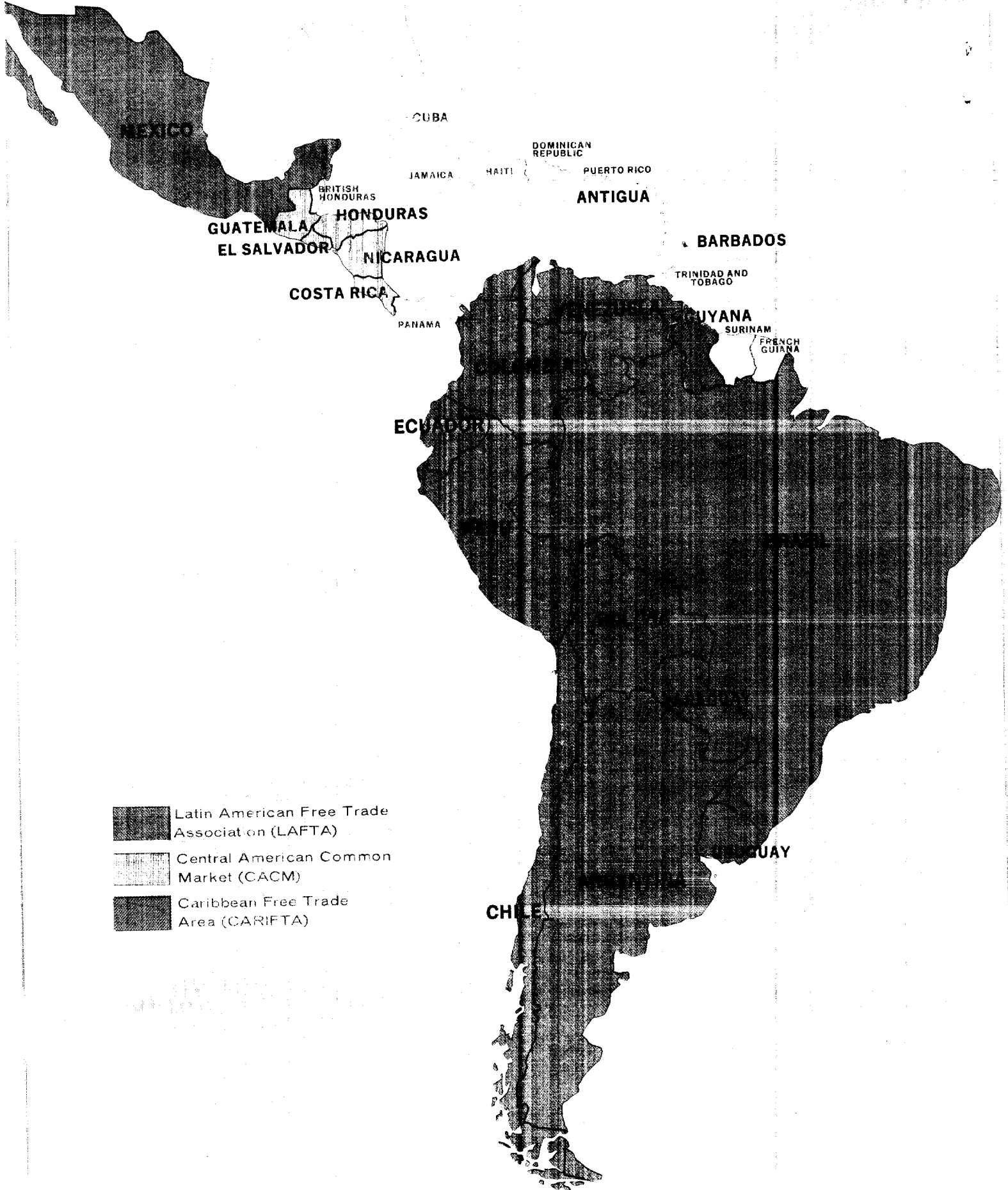
Despite recent moves, there are still many obstacles blocking significant progress toward effective economic cooperation among Latin American countries. Geographical factors, for instance, make it far easier to establish ocean trade routes with countries outside Latin America than to move goods overland. Existing communications and transportation facilities are insufficient to meet present needs, let alone provide for future growth.

Political barriers are even more troublesome. Old rivalries

and continuing border disputes between neighboring countries militate against agreement on tariff concessions and other moves toward economic cooperation. Several nations that pride themselves on their democratic development find it difficult if not impossible to work closely with countries ruled by military regimes or coup-imposed governments.

Traditional nationalism probably will be at least as difficult to overcome as the economic problems. An example of this situation was Ecuadorean President Arosemena's refusal to sign the Declaration of Presidents. His

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speeches ignored economic integration and concentrated on subjects, such as territorial limits and problems with US aid, that would get attention in Ecuador.

Existing Regional Economic Groupings

Two regional economic groupings began in Latin America during 1961-62--the Central American Common Market (CACM) and the less-ambitious Latin American Free Trade Association. They have followed different paths to integration, and have achieved sharply differing degrees of success.

Guatemala, Nicaragua, Honduras, El Salvador, and Costa Rica are members of CACM, and Panama attends most meetings as an observer. CACM has acted to remove tariffs on almost all products traded among its members and to unify their tariffs on trade outside the area. In addition, CACM has adopted the principle of cooperative planning for the development of transportation, communications, and industries to serve the whole area. Plans exist for the eventual adoption of a common currency.

Under CACM, the value of intraregional trade increased more than fivefold between 1960 and 1966, coming to account for one fifth of the total trade of the member countries. With growing industrialization, the importance of manufactured goods in this trade has increased markedly.

The Latin American Free Trade Association (LAFTA) is composed of Mexico and all independent countries of South America except Guyana. The main, though distant, goal of this grouping has been the establishment of a free trade area through a gradual, product-by-product reduction of tariffs on intra-regional trade. Progress so far has been limited. Although sizable gains have been made in trade among member countries, these gains to a large extent reflect recovery from unusually low levels of trade at the time LAFTA was established. The difficulty of negotiating product-by-product tariff reductions has been evident at each of LAFTA's annual conferences. Most countries made all the easy concessions during the early rounds of negotiations, and subsequent cuts have been increasingly difficult to arrange because of the pressure of various influential political and economic groups.

Representatives of the governments that are members of CACM and LAFTA are currently meeting in Asuncion, Paraguay, to try to draft a plan for the eventual merger of the two groups. Colombia proposed that the US be invited to send an observer of ambassadorial rank to the meeting because of the necessity of obtaining US financing for much of the economic integration program. The resolution, which the US favored, was voted down in a secret session, however. The Central American countries, moreover, are wary of forging too close a connection with LAFTA, fearing that their

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smaller economies may be at too great a disadvantage in the competition for markets within the regional grouping. Negotiations toward the Latin American Common Market therefore are expected to be long and difficult.

Guyana, Barbados, and Antigua have already formed a Caribbean Free Trade Area (CARIFTA), which is due to begin operation early in 1968. The involvement of these territories in the system of British Commonwealth trade preferences will be an obstacle to their full participation in any Latin American Common Market.

Summit Action Program

The Summit Action Program is the major substantive document to emerge from the Punta del Este meeting. As the second part of the Declaration of Presidents, it sets forth in some detail the aims of economic cooperation and the means of achieving them. This document pledges the Latin American governments, with US assistance, to work toward formation of a common market by 1985, with the formal part of the process scheduled to get under way by 1970.

To achieve the regional common market, the Action Program advocates the progressive elimination of internal trade restrictions, the gradual harmonization of external tariffs within LAFTA, and the fostering of closer ties between LAFTA and CACM. Special treatment has been provided for the less-developed countries dur-

ing the establishment of the Latin American Common Market.

Trade policy occupies an important place in the Summit Action Program. The Latin American rallying cry has become "Trade, not aid," and in furtherance of this objective, the Latins are pressing the US to become their advocate before the developed Western European countries. Much of the program is phrased in general terms, but in essence it expresses the belief that the trade preferences received by the former British and French colonies in Africa put Latin America at a disadvantage in the competition for world markets. The Latin Americans want the US to press the Europeans to end their preferential systems, but at the same time they want similar trade preferences from the US for Latin American goods.

The Summit Action Program does not deal directly with the sensitive subject of Latin American military expenditures. It does not specifically call for a diversion of funds from military spending to economic development, but it does urge limiting military expenditures "in proportion to the actual demands of national security."

Progress Since Punta del Este

The initial steps toward implementing the decisions of Punta del Este have been primarily in the cultural and economic fields.

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Shortly after the summit meeting, Venezuela called a special meeting of the Inter-American Cultural Council to discuss the implications of the Declaration of Presidents. This meeting set up an advisory group to consider sharing technological knowledge among the member countries of the Organization of American States. This is clearly a small step, and one that is unlikely to offend important interests in Latin America. It is, however, an attempt to carry out at least partially the obligations incurred at Punta del Este.

A more significant development occurred at the Inter-American Economic and Social Council meeting at Vina del Mar, Chile, from 15 to 26 June 1967. Chile, Colombia, Ecuador, Peru, and Venezuela agreed to begin implementation of a subregional trade association within the LAFTA structure. This idea received its start in August 1966 at a meeting in Bogota of presidents and presidential representatives of the countries concerned.

At the June 1967 meeting, the five countries agreed to set up an Andean Development Corporation. This group's Mixed Commission has held several meetings and appears to be developing into an active force for economic integration. The Andean Corporation will work to coordinate industrial development and to finance multinational infrastructure projects. There is speculation that the five Andean countries might form their own common market--say by 1975--and then negotiate as a group with CACM and

the other LAFTA countries toward the formation of the larger Latin American Common Market. The vitality of the group led Bolivia to sign the Declaration of Bogota at the current meeting of the Mixed Commission, and it now has become a member of the Andean group. The members of the Andean Development Corporation are aided by the relatively strong commitment of all the governments to the idea of economic integration. Furthermore, the fact that all except Ecuador have democratically elected reform governments provides another common interest.

The Vina del Mar meeting also recommended the establishment of an Inter-American Export Agency. This organization would be an autonomous part of the Inter-American Economic and Social Council, charged with seeking new markets for Latin America's traditional products and with developing markets for new products. This program would be aimed primarily at increasing Latin America's trade with European and African countries.

Outlook

The major problem facing the Latin American countries in their drive to economic integration remains the political decisions that will have to be made. Although the enthusiasm generated by the Andean Development Corporation may carry over into other fields, the initial sense of commitment to a common market could cool as the complexities of resolving integration problems become apparent.

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