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LATIN AMERICAN DEVELOPMENT AND HEMISPHERE TRADE

A REPORT

OF THE

SUBCOMMITTEE ON INTER-AMERICAN ECONOMIC RELATIONSHIPS

OF THE

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CONGRESS OF THE UNITED STATES

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LETTERS OF TRANSMITTAL

MARCH 24, 1966.

To the Members of the Joint Economic Committee:

Transmitted herewith for the use of the Joint Economic Committee, and other Members of Congress, is a report of the Subcommittee on Inter-American Economic Relationships, on its hearings on "Latin American Development and Western Hemisphere Trade."

Sincerely yours,

WRIGHT PATMAN,
Chairman, Joint Economic Committee.

MARCH 23, 1966.

Hon. WRIGHT PATMAN,
Chairman, Joint Economic Committee,
U.S. Congress, Washington, D.C.

DEAR MR. CHAIRMAN: Transmitted herewith is a report on our subcommittee hearings on "Latin American Development and Western Hemisphere Trade" which we consider appropriate to make to the full committee. The printed record of testimony has previously been made available to members of the committee and to the public.*

We wish to thank the witnesses for their excellent papers and observations. The participating witnesses were:

Dr. Isaiah Frank, Clayton professor of international economic relations, School of Advanced International Studies, Johns Hopkins University.

Dr. Joseph Grunwald, director, economic and social development studies, the Brookings Institution.

Mr. Emilio G. Collado, vice president and director, Standard Oil Co. (New Jersey).

Mr. George S. Moore, president, First National City Bank, New York; President, Inter-American Council of Commerce and Production.

Mr. Felipe Herrera, President, Inter-American Development Bank.

Dr. Carlos Sanz de Santamaria, Chairman, Inter-American Committee on the Alliance for Progress.

Mr. Jack Hood Vaughn, Assistant Secretary of State for Inter-American Affairs.

Mr. Anthony M. Solomon, Assistant Secretary of State for Economic Affairs.

Sincerely yours,

JOHN SPARKMAN,
Chairman, Subcommittee on
Inter-American Economic Relationships.

*Latin American Development and Western Hemisphere Trade, hearings before the Subcommittee on Inter-American Economic Relationships, Joint Economic Committee. Sept. 8, 9, and 10, 1965. 293 p. 75 cents. Available only from Superintendent of Documents, U.S. Government Printing Office, Washington, D.C.

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INTRODUCTION

The Alliance for Progress, which finds its explicit expression in the Charter of Punta del Este, envisions separate and cooperative efforts among all of the American nations. Their united aim is to lighten the dead hand of widespread illiteracy, bring about a steady increase in the level of average per capita income, and generally accelerate economic and social development in the lagging areas of the individual nations. The need for such progress is everywhere but the challenge and urgency are especially great in Latin America.

The Subcommittee on Inter-American Economic Relationships has previously held hearings and issued a report focused primarily on the role of "*Private Investment in Latin America*" [1] as an instrument for the advancement of these objectives. We concentrated our study at that time on the commitment which the signatory countries undertook through the Charter in these words of purpose:

> To stimulate private enterprise in order to encourage the development of Latin American countries at a rate which will help them to provide jobs for their growing populations, to eliminate unemployment, and to take their place among the modern industrialized nations of the world.

In the course of those hearings, the subcommittee touched upon the importance of mutual international trade arrangements and the progress and hopes of the economic integration movements already begun among the countries of Latin America. We did not then, however, explore the subject of trade and commerce in depth.

More recent hearings of the subcommittee and this report deal more explicitly with the role of international trade as a possible aid in accelerating the national and regional development process. They thus explore another expressed provision of the Charter of Punta del Este which declares as a goal of the signatory nations the desirability and urgency of economic integration in these words:

> The American Republics consider that the broadening of present national markets in Latin America is essential to accelerate the process of economic development in the hemisphere. It is also an appropriate means for obtaining greater productivity through specialized and complementary industrial production which will, in turn, facilitate the attainment of greater social benefits for the inhabitants of the various regions of Latin America.

This summary report on the interrelations of intra-Latin American development and Western Hemisphere trade is intended only to highlight some of the testimony and issues. It is not a substitute for study of the full transcript of the hearing record. While founded primarily upon these recent hearings, the observations which follow draw also

[1] Hearings, Jan. 14, 15, and 16, 1964; report, 88th Cong., 2d sess., May 25, 1964.

upon evidence and understanding growing out of the continuing studies of the subcommittee. These began with an extended series of conferences held in South and Middle America several years ago. They were followed by subsequent hearings in Washington dealing with Latin American economic developments and programs, including the previously mentioned study of the problems and opportunities facing private investment in the area.

I. Sovereignty and Economic Efficiency

Three premises upon which there seems to be general agreement set the framework for discussion of intra-South American continental and intra-Western Hemisphere trade expansion aimed at accelerating the pace of Latin American economic and social development.

1. As sovereign and independent entities, the Latin American nations themselves must arrive at their own conclusions as to how the development needs and aspirations of the individual countries can best be advanced.

Few persons will deny that greater export opportunities, whether in so-called primary or in manufactured products, are essential if the Latin American nations are to earn the external resources with which to finance the imports so vital to the development of a new industrial base upon which to found social progress. International trade policy is, accordingly, one of the prime instruments to be evaluated for its possible contribution to regional economic and social progress. The United States is obviously deeply concerned and ready to help the development process in every way possible. Its role is, however, essentially that of a friendly and interested bystander at the decisions which determine the initiation and substance of Latin American commercial or political integration efforts.

2. The Latin American nations must, of necessity, make considerable use of enlightened governmental planning and governmental action in many key economic and social areas if they are to achieve in a short span of years anything like the degree of development which today's industrial countries have taken a century or more to attain.

Government intervention, supplementing and conditioning the contribution of private enterprise, is especially appropriate and expected in areas involving international commerce since its regulation and control are inherently sovereign matters.

Realization of the gains from continental and/or regional economic cooperation especially call for high-level political coordination between nations. Notably dependent upon governmental and regional planning are (1) the war against illiteracy, disease, and disorder; (2) the carrying out of international and joint border projects; and (3) a united front against unfavorable discriminatory trade policies pursued by extracontinental countries and economic groups.

Needless to say, acceptable "planning" assumes that the governments involved speak for the large masses of their people. It assumes also that the "planners" are clear as to the interests of all of their people, and how best to serve those interests.

In this connection, we noted in an earlier report that "it is not feasible to carry out an economic plan at the national level without a sufficient number of qualified technicians adequately organized and secure in their tenure," [2] that is, a true, career, civil service.

[2] "Economic Developments in South America," report of the Subcommittee on Inter-American Economic Relationships of the Joint Economic Committee, July 20, 1962, p. 12.

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Good planning will, of course, not neglect the objective of economics generally; namely, that of enlarging the dimensions of national income by efficient use of limited resources for ends other than fostering high-cost production for essentially nationalistic or "prestige" motives. Enlightened planning will, moreover, create conditions encouraging the growth of emerging private managerial groups not overlooking the fact that, without the active participation of private entrepreneurs in the planning process, targets may prove unrealistic, at cross purposes, and human resources misspent and wasted.

3. Worldwide trade policy of the United States is founded upon the basic principle of freeing international trade, so far as possible, in the interest of assuring the best uses of the resources of all. Adherence to the most-favored-nation treatment in international trade arrangements, with nondiscrimination, universality of treatment, and minimum restrictions are means toward this goal.

The objective of U.S. trade (and political) policy at all times has been, and continues to be, a better and more peaceful world. In this, both the Latin American Republics and the United States have a common profound interest. The sincerity of this purpose is in no way lessened when, on occasion, specific actions of the United States give weight to the interests of developing areas in other parts of the world. Where Latin America is involved it is attested by U.S. support of the Alliance for Progress and underscored by the testimony of all witnesses at our successive hearings. Confidence in the success of the Alliance program itself, to which the United States is clearly committed, would incidentally be greatly enhanced, it was suggested at our hearings, by more explicit budgeting, "spelling out" in detail the programed amounts of public and private, domestic and international, financing involved.

The overall policy of the United States respecting world trade is supported by the strong conviction (1) that efficiency in the use of economic resources has a corollary in freedom of action in political matters, (2) that these are best assured by maximizing the areas of private decision making, and (3) that the free movement of resources, the encouragement of free enterprise, and reliance on free market forces, by providing a spur to productivity through specialization and competition, can make a major contribution to world peace and welfare.

Regional economic groupings, insofar as they depart from these principles of efficiency and nondiscrimination, must be judged on how well they recognize that attempts to solve one nation's problems at the expense of others may only end in throttling the economic growth of all.

II. Words Must Not Hinder Agreement

Trade cooperation among nations may take a wide variety of forms. Proposals for extending areas of international trade cooperation by means of diplomatically negotiated measures governing intercountry trade can only be evaluated if all parties in the discussion are talking about the same thing.

As "words of art," many of the terms used to describe some of the possible variations in formal international trade arrangements—such as, customs union, free trade area, common market, preferences, nondiscrimination, most-favored-nation treatment, and others—have quite specific meanings. Subtle differences in the extent of mutual obligations involved are often neglected in "curbstone" and preliminary "agenda" discussions. When such semantic differences are neglected it is at the risk of muddy waters and may, unfortunately, polarize policy differences which are not necessarily real or deep.

The term "trade integration," for example, is often used as a catchall term to cover all such movements. Its precise usage implies, however, a high degree of planned complementarity of industries, joint actions, not to mention coordinated monetary and fiscal policies. While a simple pooling of markets seems to be uppermost in the minds of "common market" advocates, genuine integration may logically involve a pooling of resources and close coordination of economic policy and programs as well. But this is likely to meet with nationalistic responses and social "stickiness" resisting the free international flow of labor and capital as productive factors.

The degree of integration may, indeed, go as far as united political action and the acceptance of some sort of supranational economic planning authority. The Central American Common Market may, in this sense, be properly referred to as an "integration" movement. Its ultimate hopes, as one witness interpreted it, are to "weld" the countries together through a common customs administration, a common external customs code, more or less free movement of labor and capital, joint planning of regional projects, and the harmonization of investment, taxation, financing, and monetary policies.

It is not at all certain, however, that the advocates of a continental common market, embracing all of the 19 Latin American countries, have in mind a schedule contemplating all these varied steps, nor that those who use similar terms, suggesting a still larger "free-trade area," including the United States and Canada, envision any similarly full set of integration measures or institutions even at a distant or advanced stage.

Another instance where imprecision can contribute to misunderstanding lies in the tendency to lump together as essentially similar the two, technically different, Latin American trade groupings already in being—the five-nation movement in Central America uniting in a "common market," and the movement of nine other nations uniting in a "free trade area." By definition, both customs unions and free trade areas aim to abolish tariffs and trade barriers between the contracting nations. The primary difference between them is that countries participating in a customs union maintain, or plan eventually to maintain, a common schedule of tariffs and trade restrictions vis-a-vis outside countries; while in a free trade area the participants may retain existing, or establish new, varying external tariffs and trade restrictions against nonmembers.

The distinction is important if one is to understand observations made to the subcommittee respecting the nine-nation LAFTA. The subcommittee was told that: "The need for broadening the association from a free trade area to a common market, with a unified external tariff and coordinated monetary and fiscal policies, is acknowledged both by economists and the business community."[3] The distinction is particularly important if one is to sense fully the obstacles—especially negotiatory—involved in broad-stroke pro-

[3] Latin American Development and Western Hemisphere Trade, hearings before the Subcommittee on Inter-American Economic Relationships. Sept. 8, 9, and 10, 1965. Page 58.

posals for a "common market" covering all of Latin America, no matter how desirable it might be.

Contributing further to the difficulties of communication in discussions of trade liberalization is the likelihood that many advocates, especially those having vested interests, as exporter-importers or would-be exporter-importers, may have self-serving notions in mind when using such words as: free trade (for whom?), preferences (for whom?), concessions (for whom?), protection (for whom?). Answers in many cases, depending upon the individual proponents, would probably be either "us" or perhaps against a threatening, lower cost competitor as the case may be.

In the literature of trade policy involving the developing nations—as are those of Latin America—there is, also, a frequent temptation to beg a very practical problem. This comes from assuming that "raw materials" is a category clearly distinguished from "manufactured" products, although every man's finished output is a "raw material" at another man's stage in the production process. So-called primary and raw materials produced in Latin America, since they represent so much leverage in terms of external earnings which they provide—or fail to provide—may, for example, merit special trade treatment. But one may well ask when they cease as a practical matter to be "raw materials" in such context, since one of the more obvious industralization opportunities for these same nations lies in processing these same primary materials to more advanced stages of production. Sugar refining, textile weaving, foodstuff packaging, and plywood manufacture are cases in point.

III. Gradualism Perhaps, but not Dilatory Negotiation

Regional groupings among less-developed countries, especially those with unseasoned political foundations, need not spring into being as full-blown, comprehensive customs unions or free trade areas embracing all sectors and large areas or whole continents at one time.

The same wide spectrum of possible differences in tariff arrangements, which makes precision so imperative for negotiation and understanding, has an important practical significance in practice. The existence of these shades of difference in the extent of trade cooperation suggests the wide variety of step-by-step arrangements which permit "gradualism" in the evolution and adaptation of regional groupings.

Even the European Economic Community was preceded by a variety of lesser steps, including "Benelux," the Coal and Steel Community, and the European Payments Union. It is regularly confronted with centripetal forces and the need for patience and compromise in coping with these divisive forces if efforts to maintain and strengthen the institution are to succeed.

While the need to speed the development process in Latin America can scarcely be overstated, it may similarly not be possible or feasible to exploit the full gains from economic integration within a short time. Many considerations, seemingly remote to trade and commerce, must be brought into line. Involved, for example, are basic internal tax reforms. Revenues of many Latin American governments rely heavily on export and import taxes—for example, Costa Rica, 58 percent; Colombia, 34 percent; Argentina, 32 percent; and Uruguay, 37 percent. Opportunity for freeing international trade is thus tied up with measures aimed at finding and making effective use of alternative sources of public revenues. (It would not be amiss to note, incidentally, that, quite apart from lessening the burdens on domestic and international trade, basic tax reforms offer their own developmental and social rewards.)

The desperate short-term exigencies of conserving foreign exchange are another frequent constraint upon otherwise high purposes of liberalizing international trade.

Current integration movements in Latin America recognize these varied considerations by establishing timetables for progressively freeing trade in their respective areas. In neither trade grouping currently in progress among Latin American nations does (1) the requirement that tariff dismantlement be negotiated item by item over a period of years, nor (2) the provision of numerous escape clauses reflect a lack of appreciation of the advantages of automatic, across-the-board reductions. Automaticity and predictability would, admittedly, contribute to business certainty and planning. Their postponement is simply a recognition that without compromises and slow progress there would have been no trade integration treaties at all.

On the other hand, hope of genuine success in freeing trade does require the largest possible areas of negotiation "across the board." Neither the progressive freeing of trade nor the benefits of accelerated development will be aided by dilatory trading of "exceptions" and preferences on a bilateral basis. Involved is not simply the spirit with which trade cooperation is approached but an almost inevitable bogging down of negotiations if one undertakes to proceed through a maze of items to be "balanced."

While the ambitions may be modest, it would therefore seem wise to encourage and welcome, as a beginning, the modest proposals that have been suggested for the production and trade, on a continental basis, of selected commodities, such as, fertilizers, pesticides, and other products. Slowness in the pace of development of regional trade must not cause loss of patience if an approach dealing with strategic key sectors one by one offers an ultimately enlarged measure of open and free world trade.

IV. Problems of Regional Trade Groupings

The assistance which regional trade groupings offer in accelerating the pace of economic and social development is not without some risks. Onetime "infant" industries may become reluctant to accept the responsibilities of adulthood; protectionist policies may cloak economic inefficiency; and differences in intraregional economic capabilities may at times strain national social and political structures.

In spite of the clear success of the United States—now the world's largest and oldest "common market"—in achieving a high rate of economic growth through free trade among the States, its experience in arriving at that status warns of the early dangers of regionalism. More recently, the experiences in the Western European Common Market further pinpoint the tendency of trade preferences and discrimination to promote interests of a parochial and sectoral nature. There are signs, for example, that the division of Europe into separate trading blocs instead of minimizing, threatens to deepen the split endangering world trade.

(1) Negotiated trade preferences granted to some—and the other side of the coin, trade discriminations raised against certain others—give rise to hidden subsidies for the areas favored. Reciprocal preferential trade reductions such as occur in integration movements among nations are, in fact, a method of subsidizing the domestic exports of one country in the guise of import duties on the goods of another. Viewed internally, a country imposing tariffs to protect its high-cost and "infant" industries is, in effect, taxing its own consumers through currently higher prices in the hope of establishing the favored industry to a point where it will be able to compete in the world market. Hopefully, the expedient will repay, in due course, by job creation and accelerated development returns greater than the social costs suffered in the earlier years. The economists' task is to insist upon asking whether, in trading off the consumers' immediate interest in low-cost consumption against the producers' interest in high-priced production, the benefits really do equal the costs.

Whenever one deals with subsidies, the comments of one of this committee's subcommittees nearly a decade ago are still good advice:

> Programs aimed at supporting or improving the economic position of particular groups or industries should be constantly reevaluated in the light of changing circumstances. Whatever their initial justification, subsidy programs should be so contrived as to eliminate the necessity for their continuation.[4]

(2) Economic integration in its maturity, whether it succeeds in increasing incomes or merely hardens the economic arteries, carries with it the risk of encouraging monopoly, supported initially by infant-industry and chosen-instrument arguments.

The infant-industry argument has, of course, a great deal of both merit and appeal for those concerned with the development process. Its difficulty arises in the very practical problem of determining which are the "best" infant industries, that is, those which are most worthy of protection. This is not always as easy as it may seem.

There is an ever-present risk that some of the support, singling out specific industries, may be motivated by self-serving arguments aimed at substituting relatively high-cost domestic production for lower cost foreign sources of supply. Although defended by proponents as "new trade," the result may actually be to reduce real national income. Tariff history of the United States amply demonstrates that protection when granted is as likely to be given in response to the urgings of the most articulate interests as it is the result of hardnosed economic analysis determining which domestic industries offer the greatest hopes of soon becoming competitive in a competitive world.

The cry for protection on infant-industry grounds is most likely, moreover, to be raised against highly efficient and mature external industries which stand a good chance of remaining low-cost foreign "giants" in any case, against which high-cost, protected, domestic industries may persistently have difficulty in waging effective world competition. As the London Economist, in evaluating the infant-industry argument in Latin America, commented:

> The need is for some definite opening step that will at last begin to direct protection for infant industries on to a plane of

[4] "Federal Expenditure Policies for Economic Growth and Stability," report of the Subcommittee on Fiscal Policy, Jan. 23, 1958, p. 7.

> expansionism, on to a system whereby infant firms in developing countries are encouraged to grow to their proper economic size, instead of sticking with the present system whereby protectionism applies to infant industries only so long as they keep themselves down to the uneconomic size which supplies their own domestic markets only.[5]

A good general rule might be to hesitate embarking on infant industry protection unless the step is conditioned upon an ability to foresee a time and set of criteria when it can be withdrawn.

(3) The fragmentation of world markets into more and more small trading blocs may set the stage for division of the world into economic spheres of interest which would represent a serious backward step politically and economically. As the committee was told:

> The claims of less developed countries for preferential arrangements and sheltered entry into the markets of industrialized countries should not lead us to create new spheres of interest in which one industrialized country or group of countries looks after a particular group of developing countries.[6]

(4) Another count which may be urged against regional preferential or discriminatory systems is that full realization of their ends calls for "shades" of preference among the preferred and degrees of discrimination among those discriminated against. There is a clear temptation on the part of the developing countries to want not simply free trade or zero-duty entry into the advanced countries, but to feel that any system of generalized preferences is inadequate. Among less developed countries the plea is for gradations of preferences in inverse relationship to their respective development.[7]

In Latin American matters it is particularly appropriate to remind ourselves that there are tremendous differences between individual countries and the level of income from one country to another. As we noted in an earlier report of this subcommittee:

> Some countries or regions have per capita incomes comparable to the less opulent nations of Western Europe, while others have incomes that rank among the lowest of the world.[8]

To make these differences between individual countries even more knotty, there are similar large differences among regions within the same country. These differences are significant, for "the central problem of development on the world scene is not the gap between rich nations and poor nations: it is the gap between the rich and poor parts of the developing nations themselves." [9]

The difficulties of establishing a single continental common market, divided as the area now is in both trade and association, between a Caribbean bloc of countries and the Southern Hemisphere group of countries must also be noted. The former are relatively small political and economic units, with a minimum of industry and separate bargaining power. The latter, notably southern Brazil, Argentina, and Chile, already started on the road to industrialization, are more inter-

[5] Issue of Sept. 25, 1965.
[6] Hearings, p. 164.
[7] Hearings, p. 156.
[8] "Economic Policies and Programs in South America," January 1962, p. 7.
[9] "Deeper Roots for the Alliance," Walt W. Rostow, Counselor and Chairman of the Policy Planning Council of the U.S. Department of State, America, April 1965, p. 38.

ested in the efficiencies of mass production which a common market area would provide.

The problems growing out of these country and intracountry differences were characterized at the subcommittee's hearings as a polarization effect of integration:

> Capital, entrepreneurs, and skilled technicians from within the preference area and from outside will tend to gravitate toward the more advanced partners of the preferential region. As a result, growth may be accelerated in the advanced members and retarded in the more backward countries. Southern Italy and the American South are classic examples of economic retardation stemming from the integration of these areas with the more dynamic North. In order to insure some measure of equality in the distribution of the benefits of integration, it is essential for the arrangements to include more than the freeing of trade. Institutions must be consciously created to stimulate and to finance a flow of resources to the lagging regions.[10]

Preferences—once the principle of differentiation has been accepted—would be almost certain to carry large costs of administration and large potential international political costs in attempts to give something approximating "equality of advantage." Each of the less-developed countries would have an understandable claim for recognition of its differing stages of development and assert its claims by setting up differential tariffs, country quotas, or otherwise.[11] Exceptions to universal most-favored-nation treatment thus risk an involvement in a growing tangle of discriminatory practices and an increasingly wasteful and inhibiting surveillance of trade, the certification of country origins, and a mass of counterdevices aimed at "equalizing."

V. Relation of Regional to U.S. Trade Policy

U.S. trade policy, while recognizing the potential gains for accelerated Latin American development inherent in a continental common market, must weigh its own role with respect to such proposals and, if invited, its own participation in such movements. Support of regionalism in Latin America, as elsewhere, must be evaluated in the light of traditional U.S. policy of most-favored-nation treatment and the goal of universal, or at least maximum, world free trade.

There is a special danger potentially destructive of mutual understanding when future U.S. trade policy is involved in discussions which suggest a degree of direct participation by the United States in any of the several possible regional trade blocs.

Part of the difficulty arises from the failure to distinguish clearly the motives or rationale of proposed U.S. participation in such a regional arrangement. Are proposals for trade cooperation with less developed countries founded upon commercial and economic grounds, one may ask, or are they proposed as a substitute or supplement for development aid which might otherwise take the form of direct and open grants or loans?

[10] Hearings, p. 16.
[11] Hearings, p. 47.

The argument for tariff preferences to be granted by the United States to Latin American countries is, in essence, an argument that a social investment by American consumers (as, for example, in higher coffee prices, etc.) will be rewarded by an enlarged measure of political stability and economic progress among our friends and neighbors. Although indirect developmental aid through regional trade concessions may be more palatable to the donor and an equally or more effective stimulus to development, the decision to use trade policy as a device for aiding developing countries does have a disadvantage; its indirectness makes it difficult to pinpoint or direct the assistance to the sector offering the best hope of return.

Rightly or wrongly, U.S. policy for some years (covering at least three Presidential administrations) [12] has been to view with varying degrees of favor, encouragement, or support the efforts of the Latin American countries themselves to enhance their collective prosperity through reduction of trade barriers and the more effective use of their resources by joining in regional trade cooperation agreements as they, in their wisdom, might elect.

This longstanding policy which "looks with favor on the development of a Latin American continental common market" [13] was reaffirmed at the subcommittee's recent hearings by high-ranking representatives of the U.S. Department of State in these words:

> We continue to favor a nondiscriminatory world trade regime. We recognize at the same time that common markets and free trade areas can have significant salutary effects on member countries' economic growth and thus contribute to the expansion of world trade and world income generally.
>
> We particularly support Latin American economic integration for these reasons. We see our role as one of encouragement and support. We shall continue to assist in every appropriate way.
>
> The President has offered to contribute from Alliance resources to a fund for multinational projects to link the countries of the region together, and to help in the development of continentwide industries needed to increase agricultural production.[14]

Recent suggestions by prominent inter-American leaders, hopeful of accelerating the economic growth rate on the southern continent by an improved and united posture in world trade, have thus found a sympathetic response in the United States. Evidence of this sympathetic response lies in the policy declarations just referred to and, on the occasion of the fourth anniversary of the Alliance for Progress, offers of financial and technical assistance in any program in which the Latin Americans are themselves prepared to take concerted initiative. "My country," President Johnson has said, "stands willing to help in such a venture." [15]

It is only fair to say, however, as State Department witnesses pointed out to the subcommittee that, to date, the proposals of the Latin American spokesmen are tentative and suffer somewhat from ambiguities of the type discussed in a previous section. It is not

[12] Hearings, p. 173.
[13] Hearings, p. 154.
[14] Hearings, p. 152.
[15] Hearings, p. 209.

clear from their remarks, suggesting the possibilities of special trade relations with the United States, whether general trade preferences, preferential quotas on primary products, or some other arrangements are desired.[16]

The danger of misunderstanding is particularly serious when offers of support by the United States of regional trade movements among the less developed countries in Latin America, or elsewhere, are interpreted as meaning that the United States is, by the same token, ready to participate as a contracting party to regional arrangements even though these run counter to its traditional most-favored-nation policy.

While the United States has not, as a historical matter, always pressed for free trade as an instrument for putting the division-of-labor principle into effect at the international level, the efficacy and wisdom of the principle of nondiscrimination is now an established policy of this country not to be lightly rejected. The United States has, accordingly, been in general accord with the principles of the General Agreement on Tariffs and Trade toward these ends. While article 24 of that treaty provides a legalistic exception for regional common markets, the attitude of the United States is one of concern lest exceptions be broadened to a point where they destroy or undermine the basic objective of moving toward universality.

The considered trade policy of the United States with respect to the specific needs of developing countries when these needs run counter to an overall policy of nondiscrimination, is illustrated by the fact that United States-Philippine preferences are now being phased out under a fixed schedule. Accepted at the time of Philippine independence as appropriate and worthwhile exceptions to the most-favored-nation principle, they represent exceptions which it is planned will end at the earliest possible date.[17]

It would thus be a big step from U.S. policy of smiling upon regional trade proposals in Latin America to that of becoming a participant answering the call, which some people read into these proposals, for U.S. preferences, given or traded, on a regional or hemispheric basis. At this juncture—certainly pending the outcome of the so-called "Kennedy round"—it is not at all clear that the United States would want to reverse its traditional nondiscriminatory policy.

In order to provide by tariff concessions any significant increase in Latin America's foreign exchange earnings on U.S. imports of primary raw materials, the United States would perhaps be faced with having to discriminate against nonhemispheric suppliers among the other underdeveloped countries of the world.

This would seem to follow since virtually all of the limited number of primary raw material exports which account for about 90 percent of Latin America's foreign exchange earnings already enter the United States duty free or are subject to quota under international commodity agreements. This is not to suggest, of course, that existing quotas are immutable or not subject to readjustment and change.[18]

Among the 10 raw material exports most important to Latin America, commodities entering the United States free of tariffs are coffee, cotton, iron ore, tin, bananas, fishmeal, and cocoa. There are modest duties on sugar of six-tenths of 1 percent per pound and on petroleum

[16] Hearings, p. 152.
[17] Hearings, p. 164.
[18] Hearings, p. 155.

of $2\frac{1}{2}$ percent, but these are insignificant since both items are subject to specific quotas under U.S. laws. In the case of meat, principal suppliers have agreed to voluntary restraint although formal quotas may be imposed by the President if imports surpass a given level.[19]

With respect to importation of these major commodities, the only effective way open for the United States to give further trade assistance to our friends in Latin America would thus involve a relative increase in preferential quotas—a course which would need to be weighed against possible adverse effects upon friendly developing countries outside of the hemisphere.

Since further reductions in applicable tariffs or a recasting of quotas on primary commodities offer so little elbow room for further trade assistance, the question turns largely upon the feasibility of some measure of preferential treatment to be granted by the United States to the exports of, i.e., imports from, these less-developed Latin American countries of manufactured and semimanufactured goods.

Pending the search for more such products which can be produced at competitive prices for importation into the United States, the urgency of efforts to stabilize external earnings of the developing nations from the sale of traditional primary products is in no way lessened.

Support of the proposals for a Latin American common market, particularly the policy of the United States toward them, cannot, incidentally, help but be influenced by growing threats that developed nations in Europe will expand exclusive trading arrangements with former colonies. As a strong ally and trading partner of Latin America, the United States cannot rest content unilaterally to preach the cause of good international trade policy in the face of the power of closed and preferential trading systems which seem to be on the rise in Europe and Africa. It is, of course, not necessary to join in practices which we condemn in others, but we do have a responsibility to see that the Latin countries get a "fair break" in the world trade of tomorrow.

VI. Wider Trade Horizons a Means to Progress

The Latin American nations have convincing and urgent reasons for moving rapidly toward continental economic integration. Foremost among relevant considerations is the present-day international political climate growing out of the confrontation of East-West ideologies and its manifestations of social ferment and unrest in Latin America. The United States is well aware and concerned over the implications of these developments as its participation in the Charter of Punta del Este attests.

In spite of some long-run risks, as suggested in preceding sections as involved in regional trading blocs in any part of the world, these can be avoided by an early awareness of them. In this section, the potential gains for Latin America—for the most part obvious and clear—need to be emphasized.

Only with the international political climate and the existing social backdrop clearly in mind can the case for economic integration in Latin America be properly evaluated. This is true no matter how persuasive or formidable the list of doubts or the hoped-for gains may be arrayed. Testimony at the subcommittee's hearings by qualified

[19] Hearings, p. 155.

experts points up the issue by noting the somber colors against which Latin American regional trade proposals must be judged.

One of the colloquies involved an especially knowledgeable North American international banker, as well as a leader in support of private enterprise in Latin America: [20]

> Senator JAVITS. Do you feel we must accelerate the economic development of Latin America in order to maintain political stability?
>
> Mr. MOORE. Yes, sir. It is clear that economic progress in Latin America is not proceeding at a rate sufficient to meet the minimum human needs of the people, nor provide economic stability, which is essential to peace—world peace and hemisphere peace.
>
> Senator JAVITS. Of course, we see the penalties in Asia and in the Dominican Republic of situations in which the economy will not support political stability, is that right?
>
> Mr. MOORE. Yes, sir. In fact, I would predict if we do not succeed in accelerating economic growth in Latin America the problems we have had in the past 10 years are fractional compared to those we will have in the coming 10 years.
>
> Senator JAVITS. So we are not talking about the musing of economists and bankers, we are talking about the hard realities of order and freedom in the Western Hemisphere. And unless we get back of a policy which will accelerate development, we are in for trouble?
>
> Mr. MOORE. Yes, sir.

A second colloquy, in much the same vein, with a State Department official took this form.[21]

> Senator JAVITS. You do see, I gather, a direct connection between a failure to accelerate growth materially from where it is now and a major social upheaval in Latin America in the next decade?
>
> Assistant Secretary VAUGHN. Yes, sir.
>
> Senator JAVITS. Are we likely to face it unless we get something more done than is being done now?
>
> Assistant Secretary VAUGHN. Yes, sir. I feel that way and I feel that way especially with regard to the rural sector because we have this very unfortunate coincidence of a roughly 3-percent-per-year increase in population and the constant migration of the peasants to the urban slums, and this results in problems of every kind—housing, health, education—political problems.
>
> Senator JAVITS. And revolution?
>
> Assistant Secretary VAUGHN. Yes, sir.
>
> Senator JAVITS. Or wars of so-called liberation?
>
> Assistant Secretary VAUGHN. Yes, sir.

In the face of this widely shared expert opinion on the urgency of speeding development, the issue before our subcommittee and before the people of both North and South America is essentially not whether, but how, an expanded system of regional trade cooperation can help in

[20] Hearings, p. 75.
[21] Hearings, p. 167.

accelerating the Latin American development process. While even a modest, or uncertain, contribution dare not be spurned, the logic and opportunities for spurring development by a common market association seem clear and preponderant.

The Latin American countries, having before them evidence of what industrialization has done for the developed countries, quite properly want to break out of the slow and frustrating confines of dependence on an inefficient agriculture and the exploitation of natural resources. Industrialization and development of the Latin American countries in the years ahead thus call for an increasingly larger importation of capital goods, intermediate goods, and supporting consumer items. Importations of these commodities in the necessary volume will not be possible as long as Latin American exports continue restricted so largely to primary products, demand for which, in general, rises slowly.

Imports of the industrial goods needed for development can be financed only by supplementing traditional exports with the shipment of additional manufactured and semimanufactured products. Industrialization and diversification to provide these added and new exports are, consequently, basic instruments in the effort to reform and modernize the internal socioeconomic structure. Broadening national and world markets is, in turn, essential to the reduction of industrial costs which will make these exports internationally competitive and make room for the improved domestic use of resources and a rising national product.

Efficient use of resources and modern technology often require large-scale—at least optimum scale—plant, division of labor, and specialization that is not feasible within the narrow confines of national markets. Areas arbitrarily divided into compartments by political boundaries, as well as formidable geographical barriers with little intercommunication are, in effect, denied the full benefits of contemporary technology. In such cases, labor, capital, and managerial efforts are squandered trying to do within these narrow political frontiers that which others, across or outside these borders, are doing—or can do—better and more economically.

Restriction of competition within narrow national limits frequently leads, for still another reason, to a poor utilization of productive resources. High barriers and artificial border restrictions permit, if not force, the industrialization process to develop high-cost patterns when shielded from the spur of wide area competition. The gains from increased efficiency and the stimulus of competition from larger markets may, in fact, be so great that many of the arguments urged for area integration on an international basis are not limited in application to the case for common market "cooperation." They may, indeed, in many cases be equally valid arguments for unilateral tariff reduction. If a developing country could, for example, but free itself from short-run dependence for national revenues on import levies collected at ports of entry, the gains from more efficient domestic production might in the long run supply even more reliable sources of national revenue.

Only a Latin American common market can, moreover, give the needed impetus to a rational regional, or continental, transportation and communication system. Without these, the nations of Latin America will continue to be held back in both efficiency and growth by the geographic obstacles of mountain ranges, expanses of jungle, and long coast lines superimposed as they are upon the political boundaries.

Finally, a major gain from industrialization may lie in an ultimately increased measure of political integration with its rewards in peace and understanding. Exaggeration of nationalism, appeals for economic self-sufficiency, and the fear of one's neighbors—commercially as well as politically—are incompatible with regional commerce and economic integration. Unfortunately, it has been demonstrated repeatedly that nationalism in the name of prestige and a false set of national values may do little more than contribute to a nonviable economic situation. Aspirations for rapid industrial and social developments are badly served by governments which forget what it is that they are seeking to "maximize," namely, the national product and national income, prerequisite to growth, development, and social stability.

Additional Views of Senator Jacob K. Javits

I am constrained to add these views because the report gives entirely too much attention to the possibility of potential adverse collateral effects of a regional trading bloc in Latin America and not enough to its likely benefits—economic, social, and political. I believe—and evidence submitted during our hearings supports this belief—that the threat of social and political instability caused by slower than satisfactory progress toward the achievement of the goals of the Alliance for Progress loom on today's horizon throughout Latin America. A Latin American Common Market, requiring more effective forms of regional cooperations would immeasurably assist the acceleration of Latin America's development. It would do so in a framework favorable to competition and private enterprise. It would not be incompatible with basic tenets of U.S. trade policy nor would it be inconsistent with the rules of the General Agreements on Tariffs and Trade, particularly article 24. The United States should support Latin American initiatives for a Latin American Common Market; with early priority for a "complementation agreement," or a continental "common market" as proposed by President Johnson last August, among Latin American countries for the production of fertilizers, pesticides, and similar products needed to increase agricultural production.

The need now is to encourage those forces in Latin America which strengthen its capability to deal with the many complex problems facing it.

While the possibility of establishing a formal relationship between a Latin American Common Market and North America through a limited Western Hemisphere Free Trade Area seems rather remote at the present, it should become nevertheless an important element in our contingency planning; especially should there be a proliferation of preferential arrangements between the European Common Market and former French colonial territories and other East African states to the detriment of the hopes for Latin American trade expansion there.

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