

Alliance for Progress

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"INTEGRATION AND TRADE IN THE ALLIANCE FOR PROGRESS"

ADDRESS BY
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FOR INTER-AMERICAN AFFAIRS AND
U.S. COORDINATOR, ALLIANCE FOR PROGRESS
TO A COMBINED MEETING OF THE SAN FRANCISCO
WORLD AFFAIRS COUNCIL
PAN AMERICAN SOCIETY AND COUNCIL FOR LATIN AMERICA
FAIRMONT HOTEL
SAN FRANCISCO, CALIFORNIA
TUESDAY, APRIL 9, 1968

I am very happy when I get the chance to return to the City of San Francisco and the Bay area, so famous for banking and finance institutions, industry and business, and the extraordinary beauty that surrounds all this activity. It is always a pleasure for me to return to this western trading region that has long looked westward across the Pacific and eastward across this great land, and that is now beginning to look increasingly to the south, to another area in which I am personally involved -- Latin America. I saw recently, for instance, that California's Bank of America will open four new Latin American branches.

And, as we in government know so well, San Francisco and the surrounding area has led in the establishment of centers of unfettered thought and research -- the universities which produce so many of the new ideas this nation must have to meet the new problems brought by this new age.

We in government need these ideas and we need men to put the ideas to work in this vital area I call our Home Hemisphere. I have asked -- and I expect to go right on asking -- for thinkers and doers in social and political

development; in economics, finance and trade; in education, science and technology to participate more actively in the revolutionary development effort which has seized the Americas. I ask that all of you who have so much experience to offer to search for ways you personally can help our governments solve the vast problems that confront our hemisphere today.

As a nation, we decided some years ago that it was in our own interest to work with other, less developed American nations for their progress in peace and freedom. Adopting a Pan-American ideal, the United States became a part of a hemisphere-wide effort known as the Alliance for Progress.

Since 1961, when the member nations of the Organization of American States formally pledged the close cooperation and intensive effort required to bring a better life to all Americans, the countries of the Alliance have made great advances. This success enabled the American Presidents, meeting last April in Punta del Este, to consider new stimulants to increase the development pace.

Among the stimulants pledged were:

- to speed industrialization;
- to promote trade and increase the volume and value of Latin American exports;
- to harness modern science and technology to the development effort; and
- to create a Latin American Common Market.

Tonight, I would like to discuss with you, two of these decisions: the decision to improve trade within and outside this hemisphere, and the decision to create a common market according to a fixed timetable -- the latter among the most important decisions ever taken collectively by the nations of this hemisphere.

Foreign trade is of major importance to Latin American countries. On an annual average, the sum of regional exports and imports accounts for over one-quarter of the total of Latin American national incomes.

Some of you may have read recently of two of the measures Alliance and other nations are now taking to improve international trade prospects of the Latin American countries. One of these was the discussion that took place at the recent meetings of the United Nations Conference on Trade and Development (UNCTAD) concerning a formula by

which all the industrialized countries would grant temporary non-discriminatory tariff preferences for the manufactured and semi-manufactured products of all developing countries. Up to now, these discussions have only led to agreement on the general principle and a proposed timetable for developing the scheme. We have, however, learned quite a bit about some of the complexities involved.

The tariff reductions which such a preferential system might bring about are, of course, less than they would have been before the Kennedy Round and previous negotiations under the General Agreement on Tariffs and Trade greatly reduced average tariff levels.

As a result, no one should expect that tremendous economic changes will result from the granting of preferences at this time. But such preferences should still assist the flow of private investment capital to new and expanded plants in the developing world. Finally, the agreement on such preferences would do much to convince the underdeveloped nations that developed countries are interested in their progress, even to the point of sacrificing traditional trade philosophy to help bring it about.

The second measure which has been in the news recently was the recently concluded International Coffee Agreement which is to come into effect this October. The previous agreement proved that violent price fluctuations could be significantly modified to the advantage of producers and consumers alike. In addition, the increased income received allowed producing nations to finance a significant part of their own development programs. The agreement did not, however, generate much progress on the problem of overproduction of coffee.

Under the new agreement, participating nations will establish a coffee diversification fund which, over the life of the agreement, should generate about \$150 million. This money will help coffee producing countries to develop or expand other exports and reduce their over-dependency on coffee. The United States has indicated its willingness to lend \$15 million to the fund.

Through these and other arrangements, the United States is cooperating closely with Latin America in hemiperic and world forums to achieve a better distribution of trade advantages throughout the world.

Now let us turn to the plans for the Latin American Common Market.

First a short review of recent history might be appropriate.

After the Second World War, some countries of Latin America made considerable progress in expanding their industrial base. Much of this industry, however, was designed primarily to replace imports from other countries. As a result, local markets, as poor as most of them were, were jealously guarded behind high protective trade barriers. Too often the local industries that were established were qualitatively and quantitatively incapable of competing outside the country in which they were located. Protected as they are from the invigorating winds of competition and having access to markets too small to encourage the economies of large scale production, many Latin American industries are high in cost and thus debilitate rather than strengthen national economies.

Many Latin Americans were aware of these shortcomings, and following considerable discussion in the 1950's, two regional economic organizations were established in 1961: the Central American Common Market and the Latin American Free Trade Association.

The beneficial effects of the cooperation and regional planning made possible by these organizations were immediately apparent. Markets expanded, attracting new investments which were funneled into complementary industries within the trade blocs. More people were put to work to fill the growing demand for goods. The quality of manufactured goods improved as inefficient industries were replaced.

The growth in intra-regional trade in the five-nation Central American market surprised even the most optimistic. That trade has increased over 400 percent since the market began. The Latin American Free Trade Association, which has grown to include all South American Alliance nations plus Mexico, expanded its regional trade by 125 percent. Central America's trade with the rest of the world today is 60 percent above the figure in 1961; and the Free Trade Association's grew 25 percent in the same period.

Against this background of success for partial integration, the American Presidents at their meeting in Punta del Este one year ago decided "to create progressively, beginning in 1970, the Latin American Common Market, which should be substantially in operation within a period of not more than 15 years."

As projected in the Presidents' Action Program, the common market will be built by improving the two existing integration systems, the Central American Common Market and the Latin American Free Trade Association; encouraging temporary subregional arrangements to allow countries to integrate their economies more rapidly if they wish to do so; and finally by fusing the two major organizations into one market.

This ambitious plan will, of course, be carried out by the Latin Americans themselves. The United States will not be a member of the market. One reason for this is that our industries are so highly developed and experienced by years of competition in world markets that they would swamp the smaller, more protected industries in Latin America. This being the case, why did this country pledge to provide financial support to help attenuate temporary economic imbalances, industrial readjustments and retraining of labor that will arise as the barriers fall?

First of all, as I said, we have already concluded that the development of our neighbors to the south is vital to the continued peace and security of this nation.

We also are convinced that economic integration is the biggest step our neighbors could take to accelerate that development. It is obvious, then, that we are serving our own national interest by helping our allies during the difficult years ahead.

Furthermore, although we will not be a member of the Latin American Common Market, we will certainly realize important trade benefits once the market comes into effect. This country has already benefitted handsomely from the trade-creating effects, particularly in producer goods, brought about by the evolution of the European Economic Community and the European Free Trade Association. As long as the Latin American Common Market is equally outward-looking -- and it appears to be developing along these lines -- we can expect comparable benefits as our neighbors to the south put their own trade on a more solid footing.

Although the timetable for integration has been fixed and the various steps by which it will come into operation delineated, many obstacles stand in the way of Latin American success. For example:

- Latin American Free Trade Association members must adopt a programmed elimination of duties and other trade restrictions and establish a common external tariff to convert their organization into a true common market. Considering the great disparities among member economies, this will be no mean feat.
- Some way must be found to ensure that the less developed Latin American countries receive a fair share of the benefits of integration.
- Physical integration, building and linking together national and regional transportation, power and communications networks, must keep pace with and even precede economic integration.
- A tremendous education program must be undertaken to familiarize Latin American businessmen with the trading opportunities that now exist and with those that will evolve as integration moves forward.
- The already short supply of private capital, both local and foreign, must be increased to finance the great cost of industrial growth. And finally,

-- Much missionary work must be done to convince many Latin Americans that the benefits expected from economic integration far outweigh the temporary inequalities and dislocations integration will bring. Those who have never had to compete for markets have little confidence they can survive, a defeatist attitude which, if allowed to proliferate, can hamper or stop entirely any government move toward freer regional trade.

None of these problems have an easy solution. I do not expect them to be overcome without considerably more cooperation and good will than many Latin Americans have shown in the past.

As difficult as the road to integration is bound to be, however, some of the preliminary steps taken by Latin American nations give good grounds for optimism that the schedule will be adhered to.

For one thing, the flourishing Central American Common Market stands as a good small scale example of what can be expected to total regional integration.

A forward-looking group of six Andean nations, all members of the Latin American Free Trade Association, have received approval from the Association to move more quickly toward merging their economies as a preliminary step toward wider integration. The treaty that will govern their move toward rapid subregional trade liberalization and the establishment of a common external tariff is now being drafted. As a first step, the six nations involved in the Andean group have already proposed to eliminate over a five-year period, all trade barriers affecting Andean petrochemicals. Potential annual trade in petrochemicals among the Andean group is estimated at about \$60 million. In addition, the members have formed a subregional bank, the Andean Development Corporation capitalized at \$100 million, which will help finance infrastructure and industrial projects within the participant countries.

There are reports that other Latin American nations are now considering similar subregional arrangements. If these moves are successful, Latin America may only have to integrate four or five diverse economies as a penultimate step rather than more than twenty.

The tremendous work that must be done to achieve physical integration is also moving apace. Recent contributions to the Inter-American Development Bank will enable that organization to finance a minimum of \$300 million worth of multinational development projects over a three-year period. Among the possible projects being studied are the development of vast river basins; improving and expanding air, water and land transportation networks; a Pan-American communications network that will depend on satellites; and expanding and coordinating regional electric power grids.

At this point, it is true that much of the work that has gone into integrating Latin America has been on paper. We must remember, though, that the decision to integrate -- a great psychological step forward -- was made only one year ago this month. We must remember that it took two years for the European Economic Community to move from a similar declaration of interest to agreement on the Treaty of Rome, and Latin Americans face many formidable obstacles to integration that were not so important in Europe.

These hard facts, however, should not be used by Latin Americans to justify delay or overcaution. Nor should they lead us, we in the United States who are partners in Latin American development and who have so much to offer in terms of finances and experience in world trade, to despair when the integration move appears to falter.

From the advances toward development that have already been made as a result of close cooperation and intensive effort, I believe that a totally developed Home Hemisphere, including regional integration, is within grasp. To attain this goal, we and our allies have but to practice a virtue for which we are not particularly famous: patient perseverance.

If we persevere, we will have realized the age-old dream of the Americas. If we persevere, American children throughout our Home Hemisphere today will receive from our hands the legacy of a strong, just, democratic, and peaceful--totally New World.

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