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MARKET PROBLEMS IN INTER-AMERICAN RELATIONS
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Over the past two decades, our world - in terms of economics and trade - has been divided into two great sectors. On the one hand, the so-called industrialized nations, such as the United States, have since World War II enjoyed unprecedented development. But at the same time, the developing and undeveloped nations - 77 countries in Asia, Africa and Latin America - have found it difficult to achieve a rate of growth sufficient to keep pace with the population explosion.

The basic reason for this development gap is in the characteristics of world trade, which really amounts to nothing more than trade transactions and capital movements between the developed nations, and within which are involved the developing countries, attempting desperately to find the means by which they can acquire the capital goods essential for their economic development.

Unfortunately, these developing nations which make up the aforementioned bloc of 77 are for the most part exporters of commodities and normally depend on one basic crop for their foreign exchange. This in turn means that most of these nations are depending on just one product for their economic growth.

In recent years, the gap between the developed and the developing nations has grown even wider because of the trend in prices in two-way trade. Goods which are being imported by the developing nations constantly cost more. But at the same time, world market prices for commodities - so important to these 77 nations - have generally tended to decline over the past decade. This deterioration in the terms of trade between these two blocs has resulted in considerably less purchasing power for the developing countries in their dealings with the highly industrialized nations.

The developed countries however maintain, and with some justification, that while it is true that the cost of machinery and equipment being exported to these nations has increased over the past few years, it must also be realized that the productivity of this equipment also has increased. Meanwhile, the industrialized nations are being blamed for the decline in world commodity prices. Year after year, these countries are offering more and more of their own commodities on the world market, while at the same time their technological advances have made it possible for them to find more and more synthetic products with which to replace the commodities offered by the developing nations.

Regardless of which particular side you may take in this argument, the fact remains that over the past few years there has been a notable decline in the income of the developing nations from their exports of commodities. As a result, these nations have found their already small role in global trade to be steadily reduced - in terms of percentage participation. In the last 10 years, the exports of the industrialized nations have risen by close to 80%. In the same period, total exports of the developing countries have actually declined. To give you a further idea of the ground which is being lost by these countries in their export activities, it is worth noting that back in 1930 - at the height of the depression - that Latin America's total exports amount to $60 dollars per capita. In 19 the last year for which complete figures are available, the per capita value of exports in Latin America had been reduced to just half of its 1930 level.

It is rather easy to explain and understand the difficult situation which the developing nations are having with their balance of payments - particularly since their needs to import capital goods are greater every year. In Latin America,for example, petroleum accounts for 93% of Venezuela's annual exports, while coffee comprises 55% of Brazilian exports. These same proportions percentage-wise are equally true in Chile for copper, in Bolivia for tin, in Argentina with beef and wheat, in Colombia with coffee, and in Guatemala with coffee and bananas.

If in any particular year the world market price for any of these products declines

even moderately, it can present an economic crisis in any of these nations, where balance of trade and balance of payments positions depend heavily on export sales of the aforementioned products and a handful of others. And if because exports decline, a reduction in imports of capital goods is required, this automatically is reflected in a lower rate of economic growth for the country involved.

To most of you, the idea probably comes immediately to mind that for the developing nations the best way to escape this trade and development dilemma is to diversify their economies in order to export other products, whether they be commodities or manufactures, in order to avoid the impact of price fluctuations on their one-crop or one-product economies. Unfortunately, the fact of the matter is that there are two basic obstacles which make such a diversification over the short term practically impossible.

In the first place, any diversification of this type obviously requires greater economic development and much greater importing of the necessary capital goods. Secondly, supposing that strides toward industrialization are achieved. The developing country which suddenly begins producing manufactured goods for export purposes automatically finds itself in world competition with the industrialized nations. In virtually all circumstances, it is impossible for the developing nations to compete on the world market with manufactured goods of the industrialized countries - due to the production, marketing and price conditions which these latter nations enjoy.

The result is that under these conditions possibilities are very remote indeed for the nations of the so-called third world to diversify their economies and thus improve their terms of trade and internal growth possibilities.

Mexico is an excellent example of countries among the bloc of developing nations which have sought to diversify. Thirty years ago, petroleum and minerals accounted for 45% of all Mexican exports. Today, a group of eight products represents this 45%, but all eight nevertheless still are commodities. Cotton for example accounts for 20% of total exports at present, followed by sugar, coffee, corn and wheat, minerals, cattle, etc.

Despite Mexico's great strides toward industrialization in recent years, exports of manufactured or semi-manufactured goods still make up at best 20% of total exports.

For all of the reasons just mentioned and others, the general situation in the developing nations is that of a balance of trade position which is continually worsening--exports for which the unit value is declining combined with a frank tendency toward ever greater imports of goods essential for some form of economic development.

THE MEETINGS OF GENEVA AND ALGIERS

As the result of the rather negative panorama described in the past few moments, the developing nations several years ago began a campaign aimed at convincing the industrialized countries to take action to improve not only their terms of trade but also their prospects for an improved rate of economic growth. This led to the 1964 meeting in Geneva of the first world trade conference, under the auspices of the United Nations. It was the first meeting of its kind since 1945, when agreement had been reached on establishment of the General Agreement on Tariffs and Trade - the GATT.

As soon as the United Nations announced plans for the Geneva meeting, the developing nations immediately began laying the groundwork for their position at that conference. The Latin America nations, for example, held three different pre-conference get-togethers, in order to unify programs and criteria. The first was held at Rio de Janeiro and included the attendance of Cuba. The position of that nation within the framework of the Latin American community made it impossible to reach conclusions which even be considered by the industrialized nations. A second meeting was held in New York City, without Cuba, at which the Latin countries reached agreement in principal on their development petitions. This in turn led to the third and final meeting - held at Altagracia, Argentina - at which time these countries, once again without Cuba, reached final accord on the so-called Charter of Altagracia.

This document had two fundamental characteristics. First of all, it implicitly called for a basic change in the established criteria governing trade relations between

the developed and the developing nations.

In connection with this first point, it should be remembered that since the Roosevelt period, virtually all world trade has been carried out on the basis of two principles: that of reciprocity in international trade dealings and that of the most favored nation clause, the latter of which is of course the keystone of United States trade policy.

The principle of reciprocity, as its very name imples, is based on bilateral trade agreements which have been reached between diverse countries, primarily those in the developed nation category. It clearly establishes that any benefits granted by one particular nation to another in its trade relations must be returned in kind. The most favored nation clause refers to the granting by one nation to another of more favorable trade benefits, benefits which are then often extended to other nations with which the country has bilateral trade agreements, but not necessarily on a completely reciprocal basis.

These two principles institutionalized the GATT at the world level, and have been the principles strictly enforced in world trade since World War II, a period in which at no time has any variant been considered for existing trade relations between the developed and the developing nations. In other words, these principles established firmly the policy equal trade treatment between nations, regardless of the state of development or the ability to trade of the countries involved. This aspect incidentally is that to which the Charter of Altagracia most strongly objects as its general thesis.

The second basic characteristic of the Charter was that for the first time in history, the nations of Latin America joined together in presenting four petitions which it considered could prove to be the solution for the ever-widening development gap.

Summing up briefly, these four petitions were:

1. That international commodity agreements - which fix minimum world prices on specific primary products - be extended to cover a wide range of additional products;

2. That the developed nations provide preferential trade treatment to the developing nations in the importing of semi-manufactures;

3. That when a developed nation grants preferential trade treatment to a developing nation it does not demand reciprocity nor does it automatically apply terms of the most favored nation clause to the detriment of the terms of trade of the developing nation, and;

4. That the developed countries agree to search for a formula which will improve financing conditions for the developing nations, to alleviate these latter countries from the burden of meeting heavy short-term debt payments.

As far as the first point is concerned, it is well known that there already do exist several international price agreements regarding commodities, such as in the cases of cotton, wheat, coffee, etc. What the Latin nations were urging was that these agreements be expanded, in order to incorporate other basic commodities for which price floors - and therefore a great degree of price stability - would be fixed. In general, these agreements are reached between the producing and the consuming countries, although they normally include escape clauses which allow the industrialized nations to ignore these price arrangements under certain conditions.

The second point basically aims at protecting those still fledgeling industries which are beginning to crop up throughout Latin America, and at the same time assure them of a possible - although small - export entry into markets of the industrial countries.

The third point in effect establishes a new look in world trade relations and policies, since it calls for an elimination of those two principles which have long been established for trade between the developed and the developing nations. The final point merely seeks a better deal for the developing nations when they solicit and receive financing help from the industrial countries.

Let us move on now to the Geneva Conference, which as far as the developing nations were concerned proved to be a disappointing failure. The developing nations won all the voting, but their proposals even though passed meant little since the industrial countries attending the Geneva meeting either voted against these ideas or simply abstained from voting. Since the 1964 Geneva conference, it can be safely said that with one exception

none of the proposals put forth at that meeting by the developing countries have been heeded in the least by the industrialized nations.

What has happened to world trade since the Geneva conference four years ago? With the exception of more meetings of a similar nature, very little. From point one, the only accomplishment has been an agreement in principal to study the possibilities of an international pricing accord for cocoa. As far as point two is concerned, no industrial nation has as yet approved any preferential treatment of any kind for imports of semi-manufactured goods from developing countries. Only in point three - that of trade conditions of reciprocity and the most favored nation clause - has any action been taken, and only to a small degree as the result of approval of Article Four of GATT and the Kennedy Round tariff negotiations concluded last year. In point four, that of easing up financing conditions, the World Bank studied the problem at length and only decided that the situation was so complex that it was best to send it back to a special committee for further study.

In that area in which progress has been made, that of the terms of trade, improvement has been rather small. The Kennedy Round of course only bettered fundamentally trade conditions between the United States and the European Economic Community. It is estimated that of the products agreed to in those negotiations, the developing nations are only affected favorably in 1% of the total annual trade value of these articles.

However, the GATT charter includes - in Article Four - accord to the effect that when a developed nation approves preferential trade treatment for a developing country, it should not necessarily expect reciprocity, because of the development conditions involved. This clause is not an absolute one, nor is it being universally applied, but at least it does signify the first step in world trade agreements on the creation of a new concept on non-direct trade reciprocity. And it is, potentially, an important first step.

The OECD - an organization of 20 developed countries with its head office in Paris - in 1965 created a group of experts to work on a possible system of preferences that could be offered to the developing countries.

In November of last year that work was practically finished and the OECD had a

session to approve a program of preferences that will be offered in the second UNCTAD conference to be held this February in New Delhi. The proposition seems to be a system of preferences for the exports of all the manufactured and semimanufactured products of the developing countries with limitations to prevent competition or problems to the industries of the developed nations.

The next United Nations Conference on Trade and Development will be held in March of this year at New Delhi, although at present it is frankly doubtful whether that reunion will achieve much more than did its predecessor at Geneva. In the meantime, representatives of the 77 developing nations met last fall at Algiers to begin work on a coordinated policy for the New Delhi meetings.

THE ONLY OTHER POSSIBILITY

In view of the relatively minor concessions granted the developing nations since the Geneva conference, the nations of Latin America - Mexico included - feel that their only real opportunity for economic development and improved trade lies in the creation of an economic union similar in theory to that of the European Common Market.

Obviously, such a common market for Latin America can not be achieved overnight, due if for no other reason than the wide differences in the level of development of the diverse Latin nations. However, a number of steps toward the eventual creation of such a common market have been taken already, the first of which was the signing of the Treaty of Montevideo in 1960 which resulted in establishment of LAFTA - the Latin American Free Trade Association - originally comprised by six member nations: Argentina, Brazil, Chile, Mexico, Uruguay and Peru). Since then, all other Latin nations have become LAFTA members, with the exception of the Central American countries, which in turn formed their own common market organization.

The Treaty of Montevideo contained three fundamental agreements. The first called for an elimination by no later than 1973 of all tariffs on regional products. The second dealt with the establishment of industrial complementation agreements for zonal industries.

And the third called for preferential development and trade treatment for the region's lesser developed nations, such as Paraguay, Bolivia and Ecuador.

During its first seven years of existence, two major problems have cropped up which have severely limited the progress of LAFTA. First of all, there has been little real progress in the negotiating of common lists which would eliminate zonal import duties on select products which already are being produced in one or more of the Latin nations. This problem has virtually stagnated LAFTA tariff negotiations in recent years, and was repeated at the annual negotiations session held at Montevideo which ended last December h. The basic reason for this stagnation is in great part understandable. Any process of economic integration automatically implies a more accelerated development in the economic zone involved and a resulting reduction in zonal protectionism on manufactured and semi-manufactured goods. Since for the most part industrial development in the Latin American countries is to date very modest indeed, it is difficult to achieve agreement on widespread tariff eliminations if by doing so it endangers the very operating existence - at least temporarily - of those industries already in existence. This, incidentally, is one of the crucial differences in the development of a Latin American common market as opposed to a European Common Market.

The second problem is the tremendous difference in the degree of development of the Latin nations, which makes complementation agreements extremely difficult, particularly since in Latin America today there is relatively no capital available for the development of new industries on a zonal or regional scale.

Despite these problems and others, the Presidents of the Latin American nations met in April of last year, along with President Johnson, to try and reach agreement on the economic integration of Latin America - taking as their base a Latin American common market.

Actually, it was a bit illogical perhaps for the Latin nations to take on the tremendous compromise of economic integration considering that to date they have not been able to reach complete agreement on the original thesis of LAFTA. Probably the most reason-

able explanation is that the Latin nations decided to take on an even more important compromise, seeking a much greater goal in a period of time much shorter than would have been required using only the LAFTA agreements. However, because of this, the whole LAFTA program has been relegated to a position of lesser importance within the Latin American development framework.

In other words, the goal now is economic integration and a common market, a goal which seemingly envelops not only the aims and policies of LAFTA, but also calls for even greater compromises on behalf of the Latin nations. So, the LAFTA idea of a complete liberalization of zonaltrade by 1973 now has become just one part - important but nevertheless just one part - of the entire process.

At this moment, the most important aspects of Latin economic integration are being widely and thoroughly examined, at times heatedly. On the one hand, LAFTA needs a hefty push in order to firmly establish itself as the base for the forthcoming Latin common market, a push which includes the creation of a common external tariff program. Meanwhile, there is the integration of the Central American Common Market. Here, complete agreement has been reached on the integration process and at present the Central American Common Market is establishing its own formula for a common outer tariff, including a formula which in effect would force the Latin American nations to freeze their tariff barriers at present levels as far as regional trade is concerned. This action amounts really to the first Latin American economic integration and common market agreement.

In any event, it should be emphasized here that at present LAFTA and the ideas of economic integration and a common market for Latin America stand as virtually the only hope left for real development in the Latin economies. One really should keep in mind the long history of vicious circles in the economies of these nations in order to understand why Latin America really has no other alternatives than those we have just been discussing, particularly in a world in which no outside power or powers really can offer any substantial aid toward resolving the region's development problems. All of the Latin nations, to one

degree or another, are faced with a situation in which the majority of its population is employed in agriculture, thus leaving them outside the region's economically active scope and keeping them from being purchasers of any consideration. In virtually every Latin American country, this has created a market structure which is both weak and thinly-based, thus keeping the area from being able to build up and sustain industrial development on a large scale and at low cost such as that of the highly industrialized nations. Due to these factors, industrialization in Latin America is at best a relatively modest reality, ›cated in markets with little buying power where it is economically impossible to use modern technology which requires huge volumes of production and consumption in order to amortize the necessary investments.

Because of this vicious circle in industrial development in the Latin nations, and industry most obviously is a most dynamic element in any economic development, that industry which does exist produces very little and is not able to absorb the region's excess manpower - particularly that of the rural sector. As a result, most of Latin America's rural population continues to live from the field, on a catch as catch can basis, limited incomes - incomes even more limited when the export market for the product involved is weakened by ›rld market conditions, as was mentioned earlier.

These same characteristics of market weakness make it impossible for the new industries of Latin America to reach a position where they are able to compete in the world market with finished goods produced by the technology, machinery, equipment and capital of the industrialized nations.

However, it is possible that economic integration in Latin America could over the long run offer a solution to this vicious circle of subdevelopment. By reducing zonal tariffs, these countries are for all intents and purposes expanding to a zonal scale their existing national markets. This probably is the only way by which Latin American industries can produce in volume and therefore enable them to reach high levels of productivity,, meaning in turn the use of modern technology. With this situation, it is then probable

that at least many of these industries will be able to reduce costs to a level where their products are competitive - in terms of price - on the world markets, even perhaps in the markets of the developed nations.

It also seems correct to say that the Latin nations will be able to develop their economies at a much greater rate once the integration process is begun. For one thing, integration implies more aggressive fiscal policies and a greater distribution of income, which in turn should give the individual Latin Governments access to greater revenues - allowing for increased investment in economic and social infrastructure programs. Nevertheless, economic integration also will mean that the Governments will require greater amounts of foreign exchange in order to acquire the machinery, equipment and materials which are indispensable for industrialization and more rapid economic development. However, as this industrialization process gathers momentum, it will result in a considerable amount of imports substitution, which will not only reduce foreign exchange needs for import purposes, but also will broaden still further the base for Latin America's own production activities.

With regard to this development process, the forecasts are promising. For example, the CEPAL - The Economic Committee for Latin America fostered by the United Nations - has estimated that in order to reach the minimally accepted growth rate of 3% per capita per year in Latin America, using the program of import substitution, this growth rate could be achieved with 30% less needs for foreign exchange for acquiring machinery and equipment outside the Latin American area.

All of these factors would seem to establish quite clearly that the Latin American economies will have to conform to achieving their own development, since there is nothing on the horizon which would indicate further assistance in meeting this goal from the industrialized nations of the world.

INTERNATIONAL ECONOMIC CO-OPERATION

Unfortunately at present there does not really exist any such thing as international economic co-operation, at least a form of co-operation which offers anything of importance

to the development of the developing nations. In recent years, international economic co-operation has evolved into a system so widespread and so elastic in its application that it covers such areas as technical assistance and manufacturing licenses to the developing nations, as well as international credits and the flow of direct foreign investment to these countries. As a result, there is at present no real definition of the term nor is there a workable theory of it.

Such ideas as direct foreign investment, foreign loans, technical assistance and manufacturing licenses are really nothing more than bilateral business agreements between a developed and a developing nation which have nothing whatsoever to do with a true spirit of international economic cooperation. What may be passed off as cooperation is really nothing more than international paternalism, which the industrialized nations apply toward underdeveloped areas in general and underdeveloped countries in particular. Why this paternalistic attitude? It seems that the industrial countries have decided unilaterally that the only way out for the developing nations - in other words the only road open to these nations to reach a much greater degree of development - is the repetition of the same process which the industrialized nations used to get to the economic positions they now enjoy. But the industrial nations have never stopped to really analyze whether the conditions are similar to allow for a repetition of this phenomenon along the guidelines laid down by the industrial countries.

For the most part, the industrialized - or developed - nations of today underwent development by opening their doors to foreign capital as well as to foreign human resources-persons who supplied these nations with both resources and know-how. For the most part, this situation no longer exists in the developed countries. What instead has evolved over a period of years is the establishment of gigantic international business and industrial consortiums, which move both capital and people, but never with any real idea of setting up permanent roots. In all cases, the head office of these consortiums is located in one of the developed countries, and decisions on whether or not to set up operations in any of

the developing nations depends almost exclusively on the need for satisfactory returns.

For these reasons, international paternalism makes it virtually impossible for the developing nations to take any alternate road to economic development, which in turn means in practice that the developing country involved is limited to only that growth which international paternalism - and international paternalism alone - is willing to allow it. Any of these nations which deviate from the traditional development norms laid down by this international paternalism program run the risk of being labelled as extremist, at which point all aid from the industrialized nations automatically ceases.

This whole system is nothing more than the result of an outdated philosophy which smacks of economic liberalism - one of the most hated economic doctrines which the world has produced. Based on this system, international economic cooperation can never become a productive doctrine, since it does not take into consideration the patent and notable lack of equality existing between the industrialized nations and the developing countries. The idea of equal economic treatment between these two blocs can never be realized if all economic relations are designed on a basis of outright disequality.

As an example, let's look at the system of international credits, leaving to one side those special programs of a strictly political nature which as yet have not reached levels of importance in terms of international financing.

When an international agency for economic cooperation such as the World Bank approves a credit for Paraguay, it establishes first a wide range of pre-conditions terms and interest rate using the same system of criteria that it would use for granting a loan to France. This certainly is not economic cooperation. After all, it seems hard to conceive that the World Bank is not aware of the numerous differences between the economies of France and Paraguay. Paraguay obviously needs longer repayment terms, easier interest rates, allowance for partial local financing, etc., all of which are absolutely necessary characteristics for the developing nations of the world. But these characteristics are not part of the World Bank's statutes. Why? Because the bank in turn must sell its bonds in

the industrialized nations in order to finance its operations, and the industrial countries will never agree to "easier financing" terms such as those which the developing nations really need.

The attitude of the private sector is the same. If a U.S. company approves a manufacturing license or technical assistance agreement with a company in Honduras, it will demand the same terms as it would seek from a company in West Germany. In other words, the policy of this company - when it comes to international operations - is universally applied. Apparently the large international firms have not yet realized - or perhaps they don't want to - that the economy of Honduras and that of West Germany have nothing whatsoever in common.

The rather dismal truth of the matter then is that it has not been possible to produce a new philosophy in international economic relations which establishes firmly that it is impossible to strive for and demand equal economic treatment in dealings between nations which economically are not equals. Even international jurisprudence deals harshly with the stronger nations when they abuse and deal unjustly with the weaker countries. Nevertheless, as far as international economics and trade are concerned, the practice of equal treatment remains very much in vogue - even when it is obvious that the development and trade conditions of the developed and the developing nations have nothing in common.

Actually, of course, what has happened in international economics is that while humanity continues to give lip service to the idea of cooperation and solidarity it still is governed by the principal of business is business, thus - for economic reasons - eliminating the possibility that an international company might establish something of a different treatment for the developing nations; in other words, a treatment more preferential than that which it grants to companies in other industrialized countries.

The essential theory of international economic cooperation I think should be similar to the principles of fiscal policy. In other words, a progressive system in which the tax burden depends on the amount of income received, which of course is the only just system.

What must be achieved therefore is a new spirit of international economic cooperation in which the cost of capital and services to the developing nations is made under different, more favorable conditions than those for the industrial countries.

But until this is done, the various aspects involved in today's "spirit" of international economic cooperation will continue in force - with no real long-term benefit to the development efforts of the lesser developed nations.

THE BASE FOR A NEW PHILOSOPHY OF INTERNATIONAL RELATIONS

Since this audience is fundamently Christian and Roman Catholic, I would like to make mention here of the Social Christian Doctrine and how its principles could be applied to the responsibility of the businessman in the industrial nations whose company has operations in the developing countries, responsibility for the societies of these nations. This could be a major element in the evolution of a new philosophy in the field of international relations.

The executives who direct the major companies of the world, as well as the international financing and development agencies, are for the most part practicing Christians, although it often seems that they forget this the moment they sit down at the directors' table to discuss international economics. Yet, the decisions which can mean a more favorable treatment for the developing nations must come precisely from these directors' tables. So, these executives are in an excellent position - if they want to be - to help formulate a new, more human philosophy relative to the disequality which so flagrantly exists between the countries of the world. Such a philosophy would, of course, have a tremendous impact on the world economy.

The Roman Catholic faith and the Social Christian Doctrine are *not* just religious practices, and followers of both should not feel that they have fulfilled their obligations merely by observing faithfully these religious practices. To the contrary, probably the greatest significance of both at this period in world history is the putting into practice

the theory of social responsibility. In this case,we are referring to the social responsibility of Christian business leaders who are willing to understand and work to correct the tremendous imbalance of development which exists among the nations of the world today.

If this feeling of social responsibility can become widespread and effectively practiced, it could mean a whole new era in the attitude of business and financing executives of the industrial nations toward their brethren in the developing countries, such as those in Latin America. This change in mentality - away from the traditional international paternalism - could mean the flourishing of an entire new, humanistic philosophy in international relations which could be a true keystone to the development and economic well-being of these developing countries.