

THE ALLIANCE FOR PROGRESS AND THE
LATIN AMERICAN FREE TRADE AREA

11 April 1963

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NOTICE

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INDUSTRIAL COLLEGE OF THE ARMED FORCES

Washington, D. C.

His Excellency Dr. Roberto T. Alemann, the Ambassador of the Argentine Republic to the United States, was born in 1922 at Buenos Aires. He attended the Colegio Nacional de Buenos Aires, 1936 to 1941, and graduated as a lawyer in 1947 from the University of Buenos Aires, and as a doctor in law and social sciences from that university in 1952. From 1947 to 1948 he was at the University of Berne, Switzerland for studies in economics. He was deputy editor of the newspaper "Argentinisches Tageblatt" in Buenos Aires from 1949 to 1956. In 1956 he entered public administration, serving as Financial Attache, later as Financial Counselor, of the Argentine Embassy in London. During this period he served as a member of numerous financial missions in Europe. In 1958 he was appointed National Director of the Economic and Financial Policy of the Treasury, later becoming Adviser to the Minister of Economics. In 1959 he was Undersecretary of Economy and Adviser to the Secretary of Finance, later becoming Financial Counselor of the Argentine Embassy in Washington, a post he held until April 1961. In April 1961 he was appointed Minister of Economy of Argentina, and in April 1962 he was appointed Ambassador to the United States. Dr. Alemann has participated in many international meetings as head of a mission from his government, including the Latin American Free Trade Area meetings at Montevideo in July 1961, Alliance for Progress at Punta del Este in August 1961, International Monetary Fund at Vienna in September 1961, and the trade discussions of GATT and IMF in Geneva and Washington in late 1961. Dr. Alemann has written numerous books and articles, mainly in the economics field. This is his first lecture at the Industrial College.

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GENERAL STOUGHTON: Gentlemen: Thus far our studies in the international field have been limited primarily to the U.S. views of the major world areas. I am sure you will find it refreshing this morning to hear the views of a good neighbor from the South as he tells us from his personal experiences about his views of his part of America, with particular reference to the Alliance for Progress and the Latin American Free Trade Area.

As you have noted from his biography, he is a distinguished diplomat and an economist, and has only recently been the Minister of Economy from his country, Argentina.

It is my great pleasure to welcome to the Industrial College and to present to the Class of 1963 His Excellency, the Ambassador to the United States of America from the Republic of Argentina, Dr. Roberto T. Alemann.

Dr. Alemann.

AMBASSADOR ALEMANN: Gentlemen: I would like first to apologize for my rather poor English, but notwithstanding that fact I prefer to speak freely, because I think it will be easier for you to follow my thoughts, instead of reading, as I am a very poor reader indeed.

I would very much like to give you some ideas and impressions of two very interrelated subjects. One is the Latin American Free Trade Area, and the other is the Alliance for Progress. I have been involved in the two, actually, in the making of both of them, and I would like to give you sort of the impressions of why they were made, how they are going along, what is the standing now, and what we expect in the future, instead of a scholarly lecture of facts and figures, which I think that those of you who are more interested can read in books and articles which are better studied and written than I can do for you.

I think to start with we have to go back to 1958, when both of these matters developed. In those days there was a change going on in the mood of both sides of the Americas, the United States and Latin America. We had got rid of our dictators, which was the political starting point in our country and in many other South American countries, and then in certain Caribbean countries. We established systems of political democracies, somehow similar to yours but not exactly alike. We have different approaches to these problems. But basically we think that the people should vote periodically, and we complement this with a fair amount of freedom for the single citizen.

These two items started to be present all around the hemisphere. It is not always very normal. It goes sometimes a little shaky. But still it is there. Then we started also to work together in certain areas, which we hadn't done before. For 150 years we have felt, being of a common origin and having the same language or two languages very much alike, Spanish and Portuguese, that we were friends and neighbors, but we never worked together more than in the purely political field, like forming the Pan-American Union or the OAS, and sometimes in the cultural field and sometimes in solely juridical matters, like treaties, extradition, asylum, and things like that. We never had worked really together in economic matters or social matters.

This started in mid-1958. I remember that the Argentine President Frondizi recently elected then made a tour through neighboring countries and advanced some new ideas of cooperation, very general, indeed. Then President Kubitschek of Brazil advanced the idea of the so-called Operation Pan-America in a letter he addressed, in July of 1958, to President Eisenhower. Then a month later, in August, the United States declared that she was prepared to go along with the Latin American countries in establishing an Inter-American Bank, which we had cherished for many, many years.

That was the starting point for these developments. Also in August we had our first informal meeting of policy-makers in the trade policy field from Argentina, Uruguay, Chile, and Brazil in Santiago, Chile, where the Economic Organization for Latin America of the United Nations (ECLA) has its headquarters. The ECLA Secretariat invited the four governments to look at what should be done in terms of trade between our countries. We are the main trading partners in Latin America. The first conference was held there and a proposal was advanced that we should try to see how to form a free trading area among those countries.

To put you in perspective, the Free Trade Area is very simple to define but very difficult to establish. When it is completed it is an area where there is a complete, free, flow of goods among the countries, but each one retains its power to have its own tariffs toward third countries, as opposed to a customs union, where you have the same free flow of funds but one single tariff with third countries. This is the basic difference. There are certain others which those of you who are interested can look into in books.

At the same time in the United States there was a changing mood, very slowly. You had helped the Western Europeans through the Marshall plan after the war, you were engaged heavily in Far East Asia, you had had the Truman Doctrine of Containment in Greece, Turkey, and the Near East. Africa in those days was no problem yet, and about Latin America the prevailing doctrine had been, "She could take care of herself and private investment would do the rest." But you didn't feel that a substantial effort should be made in terms of development, establishment of industries, helping in technical fields, or whatever it was.

A certain sort of resentment was built up in our countries that you may have heard about. We also started to feel the difficulties emerging out of the new trends in international trade. We had been buying your goods and the Europeans' generally at increasing prices, which resulted from your trade unions being able to push to higher costs and your managers also being able to administer these higher costs into higher prices. For us it was a matter of take it or leave it, because the Europeans did the same, and the competition was always at higher prices.

On the other side, in the mid-fifties or the early fifties, our export products, which were mainly raw materials--foodstuffs, coffee, wheat, meat, wool, hides, minerals, like copper, lead, zinc, and so on, and other raw materials, like cotton, wood, and so on--started to lose value. The prices were stabilized or went a little down. So we suffered the reverse trend of the terms of trade, ever since after the Korean war, from 1951 and 1952 on.

In 1958 this movement was still advancing, and we had problems in balance-of-payments. We felt that something should be done in terms of both development and better terms of trade. Also, what you know very well as a population explosion was pretty well under way in our countries. As a consequence, mainly, of improved living conditions in most of the countries, and of better health techniques, the mortality rate went sharply down and the

birth rate maintained a normal level, the result being increases of 3.5, 4, and 4.5 percent per annum, very, very high in some of the Latin American countries. They are actually the highest in the world--not all of them.

The Second World War had also changed the pattern of most of our economies. Industry was coming in, new middle classes emerged, and many people wanted to have things that they didn't know about before, so a change was developing ever since the 1940's. In the mid-fifties it was heading toward a crises. Castro still was in the Sierra Maestra, which is very important to remember, for those who think that everything that has been done in the meantime is due to Castro. I don't think so.

Well, under these circumstances we started to work with the Inter-American Bank, and early in 1959 the charter was agreed upon. By 1960 it was ready for operation and was ratified by the 20 countries, except Cuba, and ever since it has been an extremely successful, going concern. We had the Operation Pan-America as a diplomatic movement which created a common feeling in most of our countries, and especially in the public opinion of the United States, and it culminated in September 1960 with the Act of Bogota. For the first time the United States committed a certain amount of money to help us out in social endeavors--houses, health, education, water--which is very important in Latin America both for irrigation and for cities--certain land reforms, tax reforms, taxes, and other things. This was actually a preview of the Alliance.

Then in 1961 we had the Alliance for Progress, which put all these together into one going program. We accepted that in 1961 in August in Punta del Este.

At the same time the four countries in the South--Argentina, Chile, Uruguay, and Brazil--which are the main trading partners of all Latin America, met again in April 1959 in Santiago del Chile for the second time to see what should be done. We had certain technical problems. Many of our countries were in the process of changing their systems of importation, exportation, and exchange regulations. We in our country had just shifted from an exchange control to a free economy. Ever since our peso is free floating, and you can come in and out with dollars and any other currency as many times as you like today.

Other countries, like Brazil, for instance, had changed in those days their external tariffs. With the new tariff system they

bargained with everybody else in GATT, and had, of course, to adapt their systems to us. The same was the case in Chile, and Uruguay was the late-comer, and was preparing these reforms and has executed them in the meantime. So we thought that we should adapt these new reforms to our trade. In those days we had bilateral trading agreements and payments agreements in terms of U.S. dollars. We made payments for both sides and had a swing for any excess on either side. We had lists of products which would be paid for in the agreements. We thought this was too restrictive, it wouldn't allow for any further development, and it had no built-in idea of dynamism. We also had industries, as I told you, mainly in Brazil, Argentina, and Chile, which needed to develop. We had the feeling that the light industries, like textiles, leather, appliances, construction, food, and so on, were pretty well developed, that we should enter and were entering into other industries where large amounts of capital per unit of production were needed, and that in order to be economical we should expand our markets.

In each country the expansion of markets is rather difficult because of the level of the standard of living of the population, the standard of education, and so on. So we thought that we should try to find formulas to expand under competitive conditions our markets together. We also thought that we should come more together in order to be able to face our future trading problems. We were seeing what was happening in Europe. Of course, the demonstration effect of the European Common Market exerted a tremendous impression in Latin America. We were seeing there a new unity force. Nobody knew exactly how it would work, but we had the feeling that it was a very powerful unit of six countries coming together which would in one way or another affect our trade with them. Then we thought that we should prepare ourselves to see how to meet this challenge.

All these were the underlying assumptions under which we started to work. So in April 1959--to come back to the history--we met again in Santiago and we worked out a new formula for the Free Trade Agreement. We of course were very much aware that it would be difficult to sell to the public opinion any kind of free trade agreement because it was completely new. Nobody knew what it was, and we had to look for ratification of congresses, as we had established democracies at that time in our countries. We had to rally the support of business, labor, newspapers--what you call public opinion--in a subject which might appear very interesting or

appealing, but really the people didn't know what it was. So we felt, I think, rightly that if we presented them with the very simple, clear-cut formula of the Europeans, we would cause more rejection than approval. The formula of the Europeans is to reduce over a period of years a certain percentage their tariffs in the region--say 10 percent in 10 years and you are at the free trade area. We thought that this would be rather difficult to be taken by the political groups, because we would expose them suddenly to the certainty that there would be competition from abroad, although from the same kind of countries in terms of industrial maturity, and that this would cause a natural reaction. We had all kinds of other problems, so that we didn't want to add this one to our common endeavor.

That is why we tried to look for a new formula which would work out more flexibly. We established the commitment to negotiate every year two lists of products. On the one side each country took over the commitment to ask from the other countries and be prepared to negotiate a certain number of lists of goods--items of tariff--which would be free from restrictions, tariffs, surcharges, duties, advance deposits, or whatever system we might have had there for the regulation of imports.

There was a certain minimum amount which each country committed itself to give to the others. This was related to the weighted average of tariffs for the previous three years, and we committed ourselves to reduce this inside the community of 8 percent of the weighted average. It is a rather complicated mathematical formula which many people did not understand, but anyway we gave the possibility of flexibility. People thought that each one could give as much as he wanted and demand very much from the rest. We felt that this system would get the people more used to each other in negotiating actual interest and actual problems. It was a practical formula.

Now, this didn't lead us to the free trade area which we wanted for other reasons. It was just a preferential area whereby each country granted to the others certain privileges which were not extended to third countries. The free trade area asked for a free flow of goods between all the countries, and so we added another commitment. Every three years we will have to form a common list and put therein, all of us, a certain number of goods which amount to no less than 25 percent of the value of the trade measured against the annual average of the previous three years. This should lead eventually, after 12 years, to the free trade area,

because after 12 years these goods will be completely free and will amount to 99 percent or so--or whatever it is, as GATT says of: "substantially all the products." Some exceptions might be retained.

This was the formula, the national list and the common list, and then a lot of other details and firm institutional framework which are not so interesting to talk about. Then, once we had that, in April 1959, we offered it to all the other Latin American countries who wanted to join with us. We first met with the Peruvians, Paraguayans, and Bolivians, who are neighbors of us. They accepted it, except Bolivia, who then later refrained from signing. We met in September of 1959 in Montevideo for the final arrangements and the summing up of all the treaties, the formalities, and everything else. We gave each other another breathing space for study for six months. Finally, in February 1960 we signed the treaty in Montevideo.

Mexico in the meantime had joined us, first as an observer, and then Mexico signed the treaty as it was. So Mexico has become one of the seven founding members. From there on, February 1960, we started the ratification process, which is very complicated, as you know. In each country the House and the Senate have to discuss it, send it to committee, ask the people to make the hearings, and know about it, study it, and approve it. This process was completed within a year and a couple of months. In May 1961 the seven Congresses had approved it.

We were Mexico, Brazil, Uruguay, Paraguay, Argentina, Chile, and Peru, who were founding members of this area. We accounted for about 80 percent of the territory, the population, the trade, and the economies of all of Latin America.

In 1961 Colombia and Ecuador joined us, and they have in the meantime completed the ratification. They are full members and have negotiated the lists with us. Now we have only two in South America left, which are Venezuela in the North, and Bolivia in the center. The Bolivians have said they will eventually join. They have participated in some part of the initial discussions. So far they have refrained. They feel they are not able to join now. Venezuela has also said that she will eventually join. She had certain specific problems because of being a large oil producer and a high-cost industrial producer. We will see how we manage that.

As for the Central American countries, they are, as you know, forming their own Common Market and their own Customs Union. They are very well advanced in this process of economic integration. They have told us that, whenever they have completed the process, in a couple of years, they will see if they can join as a group. The five countries of Central America will join this trading area as one group, not as each single country. This will, of course, make it much easier for everybody. By then we would be, all of us, 12 countries, including the five Central Americas. Panama may join or may not. And we have the Caribbean islands, which are a different problem.

So by then we will have a sort of framework for both trade and economic cooperation, which will be the beginning of a real common market in Latin America.

The free trade area is now in real existence and real operation, since January 1962. This means 1 year and almost 4 months. We did the first round of negotiations in the second half of 1961. We completed the round in time, the seven founding members, and we put into effect the seven national lists of reductions in January 1962. In the second half of 1962 we had the second round of negotiations, where we reduced another substantial number of items, and we put these again into the national lists, in January 1963. So we have now completed two years, all in time, according to the agreements. We are way ahead of the minimum requirements of the treaty--the 8 percent I told you about. Actually, there are in total about 7,500 tariff items which have been either completely freed from any kind of restriction or substantially reduced as compared with third countries. The first returns of trade in 1962 as compared with the previous years show a substantial increase in the trade. In value it is estimated preliminarily as about one-third more than the previous year. All of the countries have increased their exports, except, I think, Ecuador.

Also, what is perhaps most interesting, we have seen in the first year a very interesting diversification of trade, which is exactly what we aimed at. You may know that most of the trade between our countries used to be in wheat, from Argentina to Brazil; in coffee, from Brazil to Argentina, Uruguay, Chile, and from Colombia to perhaps Chile and other countries; in sugar, from Peru to Chile; in fruit, the temperate zone fruits from Argentina to Brazil, and the tropical fruits from Brazil to Argentina; in iron ore, very recently, from Brazil and Peru to Argentina; in

timber and lumber, from Chile, Paraguay and Brazil to Argentina, and Bolivia, too; in copper, from Peru and Chile to Argentina; in certain types of cotton, from Peru to Argentina; in meat, from Argentina to Chile and Peru. These were, roughly, the general types of items and the kind of trade we had. It was foodstuffs, minerals, and raw materials. They were mostly traded at international prices, according to international world markets, by large trading corporations, which operated all around the world.

But we hadn't had the kind of human relationship which is previous to real trade. Our businessmen didn't know the businessmen of other countries. Our trade men had never traveled to the other countries, with only very few exceptions. So the other kind of trade, which is so important, in terms of industrial development, was just absent. Then you must also realize that most of our countries are just coasts in economic terms. If you look at Brazil you will see that most of the economic activities is located around this area (indicating), now, with Brasilia coming in. Chile is a coast by definition. Peru, Ecuador, and Colombia are mostly coasts in economic terms. They are backward countries and not developed. We are pretty well developed in communication in Argentina, all through the country. The same is true of Uruguay. Paraguay is very much developed along the river and certain other areas only.

I tell you this just to show how difficult it is to establish trade, because the trade is linked to transportation on the sea. All these countries have ports to the sea and their economies were organized for export to the United States or to Western Europe and import from these areas. The big ports are the most important points in economic terms for development. But we didn't have the regular lines between ourselves, because the trade was limited to these few items I mentioned to you.

How to overcome the difficulties of having little trade and little transportation was the problem. You can't have trade without transportation. And if you have transportation and no trade it's on a loss basis. We thought the way to overcome it was to give stimulus to trade and then transportation would move behind, as it normally did. This was the underlying thinking of this free trading area. When we diversified the number of items, more people became interested in how to sell certain goods in other countries.

One small example which is a pure anecdote may show you how it works. I have been told that a tradesman in Cordoba, which is

right in the middle of Argentina, saw the list of goods which Brazil had freed to all the other countries. He purchased some of these goods. He bought himself a truck, filled the truck, and went up northeast and into Brazil to Porto Alegre. There he sold his goods at a good profit, and he bought lots of stuff which was liberated by Argentina. Then he came back in his truck and sold it in our country also at a profit. This is just to show you how certain people with imagination can work out a free trading area for themselves. We, of course, encourage this very much. This is one single case.

Now, how has it worked from another point of view, which is very important? We want to attract foreign investment and mobilize our local savings in forms of new industries which require heavy investments, as I have told you. I have heard of two or three cases already where foreign investors, with our local businessmen, have agreed to establish very substantial corporations--substantial in our economic terms--one in Uruguay and, I think, two in Colombia, because before that they had gotten the free trade into the markets of other countries, so that they could build a company large enough in size to be economical, and with a guarantee of free access to the other markets. This is, of course, very important for countries like Uruguay, with less than 3 million people and no market for a big company. They will have now the benefit of this corporation and many others to come, because the location of Uruguay is very good, in between Argentina and Brazil. It has the sea there, and the river. It has good natural communications. What it needs is the outlets to the markets, which it can get through these negotiations.

Many other large concerns from the United States and West Europe have come down and looked into these matters, right away when we started. We have a permanent secretariat of LAFTA working in Montevideo, Uruguay, in the south. These concerns have established their own people to watch what is going on there and what they should do and what they can do. Many of these concerns have, of course, either businesses or agents and representatives in all or most of the countries of the area. They are looking now at how to make new investments and to reshape their own organizations according to what is going on and how the whole thing is going to develop.

When the treaty came into effect and was ratified in our countries--it is perhaps interesting to point out--no political party opposed it. In almost all the countries there was unanimous support for it. Even the Communists didn't dare to oppose it, because

they felt that it was a popular current. You remember their stand against the Common Market in Europe, and the reversal of the Italian Communists, who are now supporting it. In our countries they didn't openly come out against it, because they really felt that it was unpopular to do so. The political parties saw that this was a movement which was very well in line with their general thoughts. Most of the politicians, of course, weren't too much aware of the implications and the technicalities. You wouldn't expect them to be. At least they saw and thought that it was a movement in the right direction, and they supported it. In some countries, like Chile, the agricultural people were opposed to it, because they felt that the stronger agriculture of our country would be more competitive. But even there we explained that there were escape clauses built-in, in case they would allow the importation of certain agricultural products that would cause them serious damage, which we agreed upon. In other countries, like Paraguay and Ecuador, which are economically the weakest in the region, we granted them a special treatment. For instance, we may give and we have given them special liberations or products toward them which will not be granted to others. Suppose that Argentina or Brazil, which are the relatively large markets for Paraguay, give to Paraguay a free trade in a certain item which Argentina could not at that moment grant to other countries. This is a special privilege that Paraguay is getting, because Paraguay is considered less-developed as compared with the others. The same is happening between Ecuador and Colombia. This special provision solves a problem which these two countries had when they came into our common area.

So we have now two less-developed countries, which are Ecuador and Paraguay, and we think that Bolivia will get the same treatment when they come in. All the rest are on an equal footing.

Now, the industrialists in some of our countries, especially in Argentina and Brazil, in the beginning had a rather cool look at this new trading area. When they saw it coming they didn't care too much; they had their own problems. Then suddenly they realized it was coming into reality, it was something which had public support and was approved, and it should move along. Then they had to face the reality; they had to face the first negotiations of lists of actual, real tariff items which were to be liberated. Then we had for several months what you call the anticlimax. People got into a feeling of fear, the same feeling as you may remember in 1957, 1958, and 1959 in some parts of West Europe, where the industrialists feared that they would be subject to the competition

of other industries in the common market countries, and they didn't know what was going on. Then certain uncertainties came along.

Well, we worked on this and looked at it diplomatically, and they started to work together with the governments and sent special committees, and had contact with the other industrialists of the other countries, to see how they could work out their common problems. This is the process they are in now. It will take, of course, several years. But so far I think the results have been rather encouraging.

This area now has before it a large wave of technical problems. You must realize that we have lived apart from each other in the trading and economic fields. I told you the few goods which we had exchanged, which normally are goods which are free of restrictions or have very few of them, the rest of the economy being shelved behind the very high protection. Now it is a case of slowly opening up this protection and letting competition flow into the countries. This is a difficult political problem.

From the purely technical point of view, each of our countries has developed over the last 150 years certain habits of importation and exportation, certain regulations, laws, customs, and administrative rulings which are completely different, country by country. Of course it is impossible to handle a free trade area if each country has its own rules and regulations. You have to try to harmonize them. The first step in that direction was the approving of a common tariff denomination. It's called the nomenclature of Brussels, 1955. The United Nations approved in Brussels a common tariff denomination which it recommended to all the countries to approve. Well, we have taken that as a basis and have included some subdivisions in that, and we have recommended it to all LAFTA countries to approve it. This is now in the process of being implemented.

This will be a tremendous technical step forward, once all of us have the same tariff and speak the same technical language, and it is no longer necessary to translate the concept of one item into the tariff denominations of each country, which makes it very complicated for the individual to deal with. This is the process we are in now, and we are moving ahead.

We are also trying to see what we can do in certain types of industries and how we can integrate them into the whole area. We

have already solved the problem of origin, which is a substantial problem in a free trade area. Some parts of the products are normally imported from outside. So how much can we allow to qualify a product as being produced in the area? Who certifies this and under what conditions? This problem has been solved. The contracting parties when they meet every year also regulate among these problems and produce a substantial amount of new law which applies to the region alone.

All this is creating a sense of an economic community within our countries which was completely absent before. But it needs time to develop. That's why we agreed upon these 12 years of transition before this sense of community will really come into a strong reality and a moving force.

We also have been studying the problem of financing our trade. So far the basic commodities need no special financing. The current banking system takes care of that. The normal banks finance wheat, lumber, fruit, or whatever it is. But, whenever you enter into the field of either durable consumer goods, as you say technically, or more machinery and equipment--and we produce some of those--you face the problem of financing. The buyer normally is not in a position to pay cash for the item. So somebody has to finance it. We had not established these institutions like you have here with the Ex-Im Bank and the Europeans with their system of export insurance. We have been studying this on the national basis. We established a system last year in Argentina, and so did the Brazilians and the Mexicans. The Inter-American Bank has studied a system of cooperative financing and discounting which eventually will come into operation. So far the need is not too strong, but we feel that in a year or two or three we might need such financial backing in order that our people can compete with those from abroad in offering appropriate financing under sound monetary rules.

These are the kind of areas where we are working.

Now let's come back to the Alliance for Progress. I have been telling you what we do in terms of trade and economic integration. I have been also trying to tell you that this is not a common market. This is just a free trade area. The common market might develop out of it, but it would be unwise and unpolitical to present this to all the publics and the political parties as in fact a common market, which is not in existence.

The newspapers are misleading about this. They always mix up the common market with the trade integration, which are different steps of the same idea.

The Alliance for Progress, such a vast and complex problem, has one chapter dedicated to this. The United States Government has always supported us in our endeavors to come together and to have closer trade, although it means for at least some time a sort of discrimination against the United States exports in Latin American countries. In some cases it might happen that a current, normal flow of exports from the United States will be discontinued or reviewed because we prefer to buy in other countries of the area. But even there, normally, the same companies are involved, both United States companies or European companies, who do the production and the export. But as a general concept the United States Government has supported the Common Market, taking the same economic-risk factor as in Europe. Your Government went along with the idea right from the beginning and supported it.

In the Punta del Este Chapter of the Alliance there is a special chapter dedicated to economic integration. The support of all of us is expressed in favor of these ideas. There are two ways of doing it, as I told you, one in Central America, where five countries, which used to be a unit and were born as a unit 160 years ago and then fell apart, are trying now to come back as an economic unit. The recent visit of President Kennedy to Costa Rica showed you how successfully this whole business is going. They have their own special problems in the five small countries, each one with only between 1 and 2 million people. All the rest of us are in a large area of nearly 200 million people, with all kinds of national problems. Both have so far had and expect in the future the political support of the United States and the technical support and also the general economic support, so we can move ahead as fast as possible.

That is why the Free Trading Area and the Central American Common Market and the Alliance for Progress are three programs merged into one. We feel always that, whatever we are doing in the field of inter-American cooperation, we should try to do in the same direction. We feel that moving ahead with the investments in our countries, building roads, building pipelines, building schools, having teachers trained to fight illiteracy, are all small parts of a vast program to bring Latin America into the 20th century, or to put it this way, to let Latin America jump into the 20th century.

Of course you will pretty well realize when you look into these matters that there are very profound changes going on in Latin America. The rate of illiteracy is sharply dropping due to the programs of each country and the inter-American cooperation helping them. The rate of mortality is still dropping. The standard of health is rapidly improving. The population is looking for many more jobs than before. The land-tenure systems are being changed in some countries, where necessary. Thousands, or millions, of people who did not pay taxes a few years ago are doing so now and will do so in the future. And they don't like it. They will oppose it. Other habits are being changed all the time. There is always resistance against this. The most difficult thing to do in politics is to change a normal, established habit, as bad as it may be.

We are doing all this, and, of course, in one way or another this causes upheavals, unstable political situations, political reactions, anticlimaxes, and all these things. We are trying to do this in a framework, as I told you from the beginning, of an election and democracy on one side and freedom for the individual on the other. So our problem is to combine these political factors with economic progress, trade, and later economic integration, and social progress, too. There are five factors put together which will not always match. Somehow and somewhere we need an escape valve and a point where the pressure goes out. This is normally on the political side.

You must expect in the future--and this is my personal feeling--that the political instability in many of our countries will go on, that, because we are doing economic and social progress so fast in some of our countries, we might face political instability. This is not a failure of the system. It is one of the normal consequences you might face, and you might expect. Then we all have to try to work our formulas and ways and means to solve this and continue the process.

Fortunately we have the OAS, which is an effective institution to help us to deal with many of our political problems. Perhaps we will have to work out new institutions, new formulas, and new frameworks whereby we can leave this whole process within the Western standards, where we belong and want to stay, and solve some of the political problems our countries are faced with.

This will be the common endeavor of all of us in the coming 10 years.

Thank you very much.

CAPTAIN BRYCE: Dr. Alemann is ready for questions.

QUESTION: Has there been any impact on the economies of the Latin American countries as a result of the increase in production of coffee, fruit, and raw materials in Africa?

AMBASSADOR ALEMANN: There has been, indeed. You know how the coffee business is. There is a large surplus of, I guess, one or two years' consumption, in storage now. The fact that the African countries are building up production, of course, means the reduction of markets for the traditional suppliers in Latin America, mainly Brazil, Colombia, and the Central Americas. The fact that worries these countries more is the link of the African countries with the European Common Market and the institutional framework through which it works.

It is perhaps not so much the tariff preference which the Europeans grant to the African countries, which is not very high, but the fact that the Europeans give them financial assistance, investment commitments, and technical assistance to diversify the economies of the African countries and to induce them in some cases to grow cotton. This, from a Latin American standpoint and from a worldwide standpoint, is a difficult problem. I don't know how to qualify it, but when you have two world crops in storage, increasing the production makes not much sense. We are all working together with the support of the United States to see that the European countries increase their consumption of coffee. They still have, many of them, very high taxes on consumption. You don't have them in the United States and we don't have them in Argentina. As a matter of fact, I think we are the two countries with the most liberal treatment for coffee. But many of the European countries have taxes-- Germany, France and, I guess, Italy. We feel that if they reduce their taxes they will increase the consumption of coffee, and so let everybody live.

In the meantime, as an outcome of the Alliance for Progress and with the commitment of all of us to work together in the basic-commodity field, we all have agreed upon a world coffee agreement which basically means that the producing countries, including the Africans, will refrain from selling over and above a certain quota that they have, and the importing countries, like the United States and the Western Europeans and Argentina, will provide a certain

number of statistics out of their imports, so that a control can be made that each one is living up to its commitment.

I think this is the first approach to try to solve some part of the problem, although not the whole one.

QUESTION: Each time there is a political crisis in South America the military seems to step in to assure stability or even to remove on occasions the popularly elected government. Will you comment on what the proper role of the military is, or is there a proper role for the military in South America?

AMBASSADOR ALEMANN: This is what you call a very involved question. It's not very easy to answer in a very short way. There is a role, of course, for the military in Latin America. In most countries they are the only element of stability and continuity and order. They have their institutions which are orderly established and continually working, and in some cases they avoid a too rapid or a too substantial change in the political conditions. It is very difficult to say where this role begins and where it stops.

Basically it is felt as of now that the military should work together with the civilian authorities and back the civilian authorities in the fundamentals of their program, say, the Constitution, and avoid any going too far to the left or too far to the right, but not to run the government themselves. There is a fundamental distinction between running a government and supporting a government in the basic fields of policy. At least we in our country have come pretty well to this conclusion, that the military will support the government as long as democracy and freedom are assured and certain basic policies are followed and certain others are avoided. Basically it is the negative side which they are aiming at--totalitarian governments, to put it in the crude form. They will support this trend but refrain from running the country on the administrative side. This, I think, is the feeling which has come out after a long experience of about 30 years in our country. I can't speak for others. The military had stepped in in 1930 and then developed more and more into going into many fields both in the economic and in the purely political fields. After all that period they are now back to the point where they feel that they should support a government but let the politicians run a substantial amount of activities.

QUESTION: Has your organization taken any steps to prevent the nationalization of private industry as it comes in? For example

there was the telephone company expropriation in Brazil. Are any steps being taken to prevent this from happening again?

AMBASSADOR ALEMANN: I assume you mean the Free Trade Area when you say "your organization."

STUDENT: The Latin American Free Trade Area.

AMBASSADOR ALEMANN: Well, no, the Free Trade Area is not concerned with these matters which we feel are concerns of the national governments and they should know how to solve these problems according to constitutions, political conveniences and relations with the companies. This is a purely trading organization, and we have no philosophy about how to run public utilities.

QUESTION: I understand that Brazil has had a very serious inflation for some time. Can you discuss with us the effects of this on your Free Trade Association?

AMBASSADOR ALEMANN: Yes, that is one of the cruxes of the matter, actually. What I explained to you before was a trading system by which we reduced tariffs, surcharges, limited licensing, and limited other types of restrictions, on the assumption that, by reducing all these, the trade would flow freely. But there is one item which I haven't mentioned, and which you point at. This is the fluctuation of rates of exchange as a consequence of inflationary events or policies in certain countries.

This perhaps disrupts trade much more than all the other elements. When you have, to put it simply, a cruzeiro at, say, 400 cruzeiros for a dollar, at one given moment, and then you reduce by agreement all the tariffs and all the other restrictions upon a certain commodity, the exporter in another country can make his calculations in dollar terms or in cruzeiro terms with this fixed given relation. Then, suddenly, because of internal events in Brazil, the cruzeiro rate, say, goes up to 700, and the whole market structure changes, because, not so many people will be prepared to buy this product at 700 cruzeiros for a dollar as at 400 cruzeiros for a dollar, and the effect on trade which was expected will be diminished very largely.

The same on the other side--if you are an exporter in a certain country and you have a rate of exchange for 400, you might say, "I am not able to compete with this country in a certain commodity

which has been liberated, say, in Argentina," or wherever it is. Suddenly you have an exchange of 700, and then you are able to compete, but you don't know for how long, if you are not given a certain amount of guarantee that this rate will remain stable and that your cost in relation to this rate will also remain stable. That is why in the long run the Free Trade Area and later the Common Market will not be successful fully if we don't at the same time reach stable currencies among our countries.

The devaluations we are having in Brazil, Argentina, Colombia, Chile, and other countries are very harmful to this whole process. That is why we are given a certain period of time for adjustment. I expect that the time will come in the near future when the Latin American countries will deal with each other in terms of inflation. So far it has been only the political forces inside the countries, the International Monetary Fund, the U.S. Treasury, and the Europeans who have dealt with the problem. But no Latin American country has told another one to refrain from having inflation, as the Europeans, for instance, did in the fifties among themselves in the organization of cooperation that they had.

I expect that this will develop when more and more diversified trade happens. It is, indeed, very harmful, there is no doubt.

QUESTION: Sir, would you discuss the impact on Latin America of Russia's venture in Cuba?

AMBASSADOR ALEMANN: This is a purely political matter. I would say--and this is a personal appreciation--that the week in October after the 22d was rather decisive for the future of communism in Latin America. Up to that moment Fidel Castro had built up an image in certain countries--not in ours and not in the southern countries, but around the Caribbean--of a liberator. I doubt what he liberated--perhaps the odium of work for his people. Anyway, he had built up this image, and also the image of a man who stood up, a small guy, against the big guy, the United States. After what happened in October, when it was pretty clear to everybody that the small guy was handled by another big guy, in Russia, he has lost almost all of his prestige.

This is one of the very simple political facts of life all around Latin America. You will find political people from the right, from the center, and from the left, romantics, or realists--whatever you like--but they disapprove any link with a foreign power. They disapprove some foreign power's handling of the basic affairs of a

country. It might be Britain, DeGaulle, the United States, Soviet Russia, or any other. This is being disapproved. When, as in October, it was shown so clearly by Khrushchev himself that he handled the basic defense of Cuba, and that he was the man who said, "I put in the missiles; I take out the missiles as it corresponds to my own convenience and not that of Fidel Castro," this man lost his basic appeal to the politicians in Latin America.

Then there is another instance which you have to take into account. For most of the established politicians in Latin America, Fidel Castro is basically an enemy, because he tells them that he is going to send his men down from the Andes, he says, as he did it from the Sierra Maestra, to change these established politicians and put his men in. There is no discussion about that point.

How they handle it is a different point. They might handle it in an oblique form, instead of affronting him, as some do, because they feel this is the best way to approach the problem, to do it step by step and slowly. Some others do it in a more direct form and approach it bluntly, as we may be doing it.

You have seen that in October we reached in 24 hours full unanimity about the basic problem of how to handle this Russian threat in the Caribbean. We got what nobody expected--20 votes for it within 24 hours, even less, within 15 hours. I don't think that this has happened ever before in our common history. I remember when we got the unanimity, it was largely elaborated. Mostly we didn't get unanimity; we got a qualified majority, which was the normal way of operating within a body of so many countries.

This showed you how strong the feeling of danger is and how strongly we stood together. I expect that the effects of this in the future will be felt over many, many years, although we might go on quarreling about certain issues and on how to handle this particular issue and how to go on with the other one. This is normal among free countries.

But, by and large, it is my feeling, and it is shared with many others, that the cause of communism has suffered a terrible deterioration after the events of October last.

QUESTION: Sir, in regard to your last answer, would you give us the Latin American view on the debate in the United States about

our having very specific requirements as a quid pro quo for the aid we give on how the countries run their internal affairs?

AMBASSADOR ALEMANN: In general we don't like people to tell us how we shall run our internal affairs. This is natural. Nobody likes that. We go along with the need for certain reforms. We are doing it. Sometimes it is difficult to prepare the reform, to adopt the reform to the needs of our country, and to push it through Congress. This will cause a sort of feeling of frustration over the 10 coming years, because in each country the political problems are different, and in some of them there are resisting forces which weaken the programs or water them down. This is normal.

By and large we have been feeling that we should do reforms, and we are doing them. If you would like to go into the list of reforms, there are rather impressive ones so far, although there are shortcomings.

But, on the other side, there is a strong feeling in Latin America that too many strings are attached to the aid. Not only might the United States say, "Well, I am not going to give any assistance, either technical or moneywise, before certain reforms are completed," but also we feel that when all this is completed you still have other strings. You have the tight-money policy, for instance, which requires a tremendous amount of bureaucratic formality for all of us. It is very complex to fulfill, just because you have Congress watching over your dollar situation. We feel this is not our problem, it's yours.

In our case, for instance, we have a deficit in our trade with the United States. We export for \$100 million and we import for \$400 million--about that. So we feel that there is no dollar problem. Whatever we get in aid from you we spend here.

Any additional formalities we have to fulfill are just annoying to everybody. We have been making a substantial effort in liberating our economy from all these formalities and bureaucratic links, and so on. Now suddenly we realize that we have to reimpose them, just to fulfill a commitment your organization has with your Congress. This causes problems. We understand them, of course. We understand why they are. But some people in our country don't and especially they don't understand when it takes so long until the whole process is completed because of your internal,

bureaucratic problems. This causes reactions, there is no doubt. People get frustrated wondering why the aid is not coming and asking, "Why does it take six months before a certain aid project is completed, when the problem is so simple?"

In other cases we are responsible for it, because we don't produce the correct papers or we don't complete the feasibility studies in due time. All this creates a certain problem of adjustment. Well, we have to work all together. I have seen my friends in the State Department and the Alliance who are making all the best efforts to fulfill their difficult position in between the Congress, public opinion here and there, and our demands.

QUESTION: Mr. Ambassador, would you discuss how the Latin American countries can attract large amounts of private capital, either internal or external, where you continue to have the political instability that you say will go on for the next 10 years.

AMBASSADOR ALEMANN: That's one of the problems. I don't think you have a magic formula for that. You have to work on the problem through very different channels, and you will have different results according to each case.

As a matter of fact, figures are misleading. We are attracting a tremendous amount of money even with political instability, there is no doubt, only the investment is not going, as it used to, into public utilities, and, say, the oil industry, where there is a big investment process due to certain factors in Venezuela. But it goes now mainly into manufacturing. This is a new field where American and European investments are going in. It goes into certain services, and into technical fields, and also in short-term money. We have been attracting over the last years a lot of money in these fields, if you break down the whole figures.

Now, the newspapers are giving you misleading figures again. They tell you on the one side that there is a net reverse flow of capital from Latin America. If you look into the figures you will see that this is solely due to the fact that the oil capital invested in Venezuela withdrew some \$150 million or so last year. This is a one-shot operation and very special and localized for certain special reasons. On the other side you have large amounts of capital diversified and adding up small amounts into the manufacturing industry, which is the most dynamic terms of development. Then you have the short-term fluctuations of capital, the so-called hot money, which flows from New York, Switzerland, and Europe into

and out of Latin America, the whole time, according to how the situation is going. This is also very much misleading. Then you have lots of lending money which is being repaid. When we repay our money people say we have a flight of capital. In our country we have repaid last year, when we had political troubles, a lot of money, a tremendous amount of money, and then when you saw the statistics you saw that there was a flight of capital out of Argentina. It wasn't. We were repaying our debt. So far because we haven't settled down no new, fresh, short-term money is coming in, or only a little. This we are overcoming now and we will solve it again.

I would say there are two or three things which we should do, anyway. We should solve the situation of inflation. This is basic, and I guess we will do it over a couple of years, or a certain number of years. We can't do it one-shot. We should grant the investing capital, both national and foreign, on an equal footing, certain tax incentives. Many of us are doing it. We should grant them a climate in which they can work together with others through laws and political systems where they will feel at home. Then we should, I think, enter into investment-guarantee programs which, for the psychological point of view, from the United States are very important now, as they were after the war when no U.S. investor wanted to invest money in Europe because the Russians were just there. After five or six years they overcame their fear and invested freely, without any investment-guarantee program going there now.

I have the feeling that the same thing will happen in Latin America in 5 or 10 years, when they overcome the actual fear which is due mainly to Castro.

These three things I think we should do, and we are working on them, case by case. You can study it country by country and see how it is moving. Eventually a better atmosphere will be developed, as it has been in the last year, when we had so many gloomy political situations in most of our countries.

I think in Latin America the whole political picture is largely determined by the two big countries, Brazil and Argentina. If these two regain a feeling of political stability and work toward financial stability, the whole picture again in the area will change very rapidly. This can happen in a short time.

QUESTION: Sir, previous speakers have discussed with us the advantages and disadvantages of a country receiving aid through a bilateral agreement or through an international organization, such as the U.N. Will you give us your comments on whether your country finds it more desirable to get aid from an international organization or through a bilateral agreement?

AMBASSADOR ALEMANN: I think both ways are good. For many cases multilateral organizations are better. If you go for private investment, for instance, in industries, I think that the multilateral organizations are better, such as the World Bank, the International Finance Corporation, which is an affiliate of the World Bank, and, especially for us, the Inter-American Development Bank, which is particularly suited for the problems of private investment in Latin America and for assisting them in their feasibility studies and capital needs.

Now, if you go into the other type of lending, where large amounts of money are involved, say, for big, public utilities, and certain basic industries, sometimes you need several agencies because the amounts involved are so large. Then the multilateral organizations would not be prepared to go in except with the political backing of U.S. agencies and European ones, which are bilateral. Then you can combine them.

In some other cases it is necessary, for political reasons, that you act bilaterally with a country. So I would say that you need both, according to the merits of each. That, I think, will go on in the future.

QUESTION: Sir, this is a rather broad question. Could you clarify for us the Peronistic problem in Argentina?

AMBASSADOR ALEMANN: This is a rather broad question. I agree with you. We had 15 years ago a political movement in our country which was directly sponsored by military government and a military man, Juan Domingo Peron. He got the support of the masses through demagogic gimmicks. He gave them wage increases. He organized them in unions. He destroyed the former unions and gave the new unions his charters and put his people in, and then he granted them over the years increases in wages and salaries. He financed this through just manipulation. He reduced the working hours. He granted them all kinds of fringe benefits and improved their relative position in the society very much.

But also, at the same time, in two years, he established a basis for the ruin of the country. In these two years he set up a system through which the basic investment was not done any more either in highways, in power, in oil, in steel, or in other basic industries. All the services upon which the rest of the economy was built-up were deteriorating slowly. He nationalized all the utilities, either buying them out or expropriating them. Mostly he bought them out at a very high price. Then he filled them up with lots of workers whom he attracted from the countryside. He gave them better wages, better conditions, and rulings with featherbedding and all these things. And the services deteriorated all the time. But these people felt very well. There is no doubt about that.

When he finally was overthrown because he had restricted our freedom so much that we couldn't stand it any more--and we did it by ourselves--the condition of the country was a very curious and paradoxical one. Apparently we still were living in the same situation as before. Nobody could see the real deterioration behind the walls. Especially the workers couldn't see it, because they were doing fine.

On the other side, those who knew about economics and politics realized how large the damage was. Ever since we have been trying to redress the situation, where it had to be redressed. We started to build roads, and taxed the people to build the roads, like it is done in so many other countries. We built a steel mill with Treasury funds because no private capital was available at that time. We are having it now. We attracted mainly American capital with risk in the oil industry, reversing an old policy of Peron. We denationalized way over 50 industries or entities. We privatized the whole bus system in Buenos Aires City. It is a fine system now. This meant a reduction of manpower by about half. We eliminated all the controls of foreign trade which Peron had established. The effect of this was an increase in productivity, a sharp increase in productivity, in many industries, in many large, substantial industries. Take only the meat packing houses, which are one of our basic industries. Through this system of competition they had to reduce a number of people there, because otherwise they couldn't compete any more, either among themselves or with foreign markets.

This was, of course, a change, compared with previous situations. We reduced the number of workers in the railroads. I will give you an example. When Peron took them over from the British

and paid them a very generous price for them in 1948, they had 140,000 people. Our system is the sixth largest in the world. In 1958, as a consequence of the featherbedding rules he had established therein, they had 220,000 people. But the freights had come down to one-third. So the rest you can imagine--just adding up, or better, subtracting. Now we have reduced this by 75,000 or 80,000 people back to the former standard. But still the service is bad. We have to keep going. We have closed down tracks. We have privatized the restaurants and closed down the working shops and everything else.

All this is far from popular, there is no doubt. But these are the kinds of structural reforms which are necessary in our country--not in others but in ours. Then we have done so many things in this direction.

But, of course, the people who were involved in this, the workers, the trade union leaders, feel that they are worse off now than they were before. I don't think they are worse off, because they have better services now. They are seeing it right now. They have more freedom and a lot of other facilities.

But from the political point of view they still feel it. Fifteen years ago, when Peron was in power, they were running the country. This feeling is very difficult to overcome. It takes time, patience, working out new formulas, and adapting to new systems.

On the other side, we believe in democracy. This is our old tradition. Our Constitution dates back to 1853 and was inspired by yours. It is the only one in Latin America that old. Peron changed it just to be in the position of being reelected. The Constitution very wisely provides for only one period and then a waiting period before another one, before the same man can be reelected. Peron was rather anxious to get on all the time, so he changed the Constitution, and he had the majority at that time. We reversed that and came back to our old tradition.

Our problem is how to incorporate this, say, 30 percent--30 to 35 percent--of oldtimers, which is half of what he used to have in his best times, into a democracy, how to have them respect the rights of others, the freedoms of the people, and work together with everybody for the good of the country. Some of these people are rather violent. They claim and say publicly that, if they ever

come back, they will shoot the others. Nobody will let come into power somebody who is going to kill you. It's a very simple statement.

Some others have some way learned a lesson. They know what it means. I'll give you one example, in quoting public statements. When Peron was in power he took over "La Prensa," one of our leading newspapers and a very well-known one all around the world. It was a fine newspaper. He took it over because it was opposed to his policies. He gave it to the trade union as their newspaper. After the Revolution it was returned to the owner. Ever since it has been in his hands, and he has been free to criticize the different governments we have had in the last years, and he has very sharply criticized, and still does.

When newsmen ask the Peronist leaders of now, "What would you do if you come back to power, with La Prensa?"--this is one of the issues--they say, "We will take it over immediately again," some of them. Others say, "No, we have learned a lesson. We wouldn't do that. We would leave it as it is." I think both of them are sincere.

This shows you how difficult our problem is, in Argentina. This is not the problem of other Latin American countries. How to deal with this is the problem, how to get them back into the democracy, how to have them work together with the other political parties, slowly, so that they can participate in power and work on common solutions for the future, without endangering the basic freedoms and without the threat of a civil war.

This is why we had so many problems in the past. And we may have them in the future, until we reach the moment where we have a solution and we can go on.

I hope this answers your question.

(2 July 1963--7, 600)O/gh:pd