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Peru and the Latin American Free Trade Association

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PERU AND THE LATIN AMERICAN FREE TRADE ASSOCIATION

by

Alberto Ruibal R.

A Thesis Submitted to the
Graduate Faculty in Partial Fulfillment of
The Requirements for the Degree of
MASTER OF SCIENCE

Major Subject: Economics

Signatures have been redacted for privacy

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I. INTRODUCTION

The field of economic integration was chosen as the subject of this thesis because of its importance for the economic and social progress of the developing world. The present work follows a deductive method, going from the general view of the economic integration scheme in terms of its theoretical framework (Chapter II), through the case of the Latin American Free Trade Association (LAFTA) (Chapter III); to the specific analysis of the Peruvian membership (Chapter IV), which pretends to be the main part of the thesis.

In recent decades the general problem of underdevelopment has increasingly become a major issue in world affairs, and the development of the poorer nations constitutes without doubt one of the major endeavors of our time. Many proposals and alternatives have been suggested, but none of them has become more fashionable recently than economic integration, as a mean by which sustained economic and social development and growth of the lesser developed countries could be achieved.

The original pessimism about the integration of underdeveloped countries was based largely on orthodox economic theory, which implies that the grouping would divert much more trade than it could create. However, these static postulates have a limited application for less developed regions. In such areas the main consideration lies in the dynamic changes that economic integration will bring about. It has to be emphasized that economic integration by itself does not produce economic growth and development.

Latin America is a cross-section of virtually every stage of human history. Every phase of civilization is encompassed-aboriginal

tribes, societies living under conditions similar to those that must have prevailed before the Spanish Conquest, the fuedal populations on the great land estates, and finally the urban complexes associated with contemporary industrialization. This broad spectrum of societies, ranging from the most primitive to the most advanced, is associated with extreme disparities in levels of living, health, education and culture. The majority of the population in the area has gained little or nothing from the economic development of recent decades.

Regional economic integration has been an old Latin American aspiration. The process, however, does not merely consist of the grouping of the economies of the member countries as they are now organized, but it involves, inducing through economic integration, the fundamental changes that could break down the prevailing "status quo" and allow the achievement of sustained development.

The past decade has witnessed an accelerating trend towards the formation of regional economic organizations aimed at achieving a common solution to common problems. Two such combinations have taken root in Latin America: LAFTA and the Central American Common Market (CACM); both as partial means towards the achievement of the final goal: "The Latin America Common Market". Both were fashioned in response to the problems of rapidly growing population, concentration in foreign exchange earnings, poor transportation systems, and inadequate marketing facilities. Both aim at breaking down national economic barriers that impede area wide growth of trade and investment. Basic to the two unions is the realization that maximum efficiency in a modern industrialized world requires a volume of output and sales that exceeds the potential

demand of any single domestic market.

Latin America's present foreign trade structure, which traditionally has been one of the major dynamic elements in the economies of the region, appears to exhibit serious stumbling blocks to sustained economic development. Partly due to the deterioration of the terms of trade for instance, the area has encountered increasing difficulties in obtaining from the small diversified export sector, the earnings required to finance the imports of capital goods needed for its development. Likewise, the process of import substitution of manufactured consumption goods is limited due to the small size of the market in the individual Latin American countries. The integration movement in Latin America is treated in Chapter III through the case of LAFTA. In this chapter LAFTA is analyzed in terms of its background, mechanisms, achievements, and problems and limitations.

The ex-post analysis undertaken in Chapters III and IV, which covers the 1950-65 years, has been divided into two periods: pre-LAFTA (1950-61) and post-LAFTA (1961-65). From the analysis and comparison of the two periods some conclusions have been drawn about the impact of the entry into force of the Treaty of Montevideo upon the member countries and, more specifically, Peru.

Due to the irreversible nature of the integration movement in Latin America, the participation of each single country of the region became almost unavoidable. Chapter IV analyzes the case of the Peruvian membership in LAFTA, describing the most relevant aspects of it and presenting in the last part of the chapter, some alternatives for the implementation of the future policy of participation.

Peru occupies a very special position within LAFTA. It maintained one of the lowest levels of import duties in the area, and had virtually no other kind of trade restrictions. LAFTA represents one of the most important food import sources for Peru, but in export terms it is a market of less importance, more for raw materials.

All these characteristics imply that the achievement of the gains expected from economic integration, will involve a Peruvian participation based on substantial changes in the whole framework of the economy. Nonetheless, in developing countries the required substantial changes do not always precede the implementation of their participation, but will be induced as a post-integration effect.

In this sense it has become widely accepted that integration will not produce extensive short-run welfare gains, but it is expected that this situation will be largely compensated by long-run changes, which will be translated into the economic and social development and growth of each participating country. Peru's slow adjustment to the integration process can be easily explained as a result of its condition as a less developed country.

The ample scope of the field of economic integration, the study of LAFTA, and Peru's participation in it have allowed the author to cover them in only a general way, with deeper analysis reserved for some aspects of the Peruvian membership.

The summary of the thesis and the conclusions that have been drawn from the work comprise Chapter V. This part states the significance and effects of integration for Latin America in terms of LAFTA, and the impact upon Peru through its participation within LAFTA.

II. ECONOMIC INTEGRATION IN DEVELOPING REGIONS

A. Concept of Economic Integration

The present chapter is an attempt to analyze the concept of economic integration in the light of the Latin American experience up to date. Historical material will be used to illustrate with realistic examples and to supply evidence concerning the issues raised in the course of the analysis. The concept of economic integration has been given different meanings in the economic literature. Economic integration could be defined as a process and as a state of affairs. Regarded as a process it encompasses measures designed to abolish discrimination between economic units belonging to different national states; viewed as a state of affairs, it can be represented by the absence of various forms of discrimination between national economies.

Examples of different types of economic integration, some of which do not conform to the definition of the classic customs union, follow. The German "Zollverein" brought together — in 1834 — eighteen states with a population of 23 million inhabitants (13). Its history is reflected in the interdependence of economic and political factors in the formation of the present European countries. In a certain way they faced all the contemporary problems such as toll road payments, merchandise taxes, restrictions on capital and labor movement, etc. Other good examples are the Tariff Regime under Bismarck's leadership in Germany, the McKinley Tariff in the USA, and the Melin Tariff in France. All involved trade barriers in order to protect their infant industry.

Although the roots of economic integration go back to the 18th century, its theoretical framework has been developed in recent years.

Professor Viner wrote his book "The Customs Union Issue" in 1950, and this event could be considered as the point of departure for the theory of economic integration. The theory of economic integration can be regarded as a part of international economics, but it also goes beyond the field of foreign trade theory by exploring the impact of a fusion of national markets on growth and examining the need for the coordination of economic policies in a union. Finally, this theory also should incorporate elements of location theory.

A number of authors have – in the years since 1950 – contributed to this new field.

Names like Meade, (46) Balassa (12, 13), Mikesell (48), Scitovsky (61), Lipsey (43), Dell (27-31), Urquidi (69-70), Wionczech (75), and many others are among the most important ones.

At present the organization of custom unions in underdeveloped regions calls for an adequate theory. Most of the tools for economic integration were developed with respect to industrialized regions like the European Economic Community (E.E.C.).

B. Economic Integration in Developing Regions

After World War II, economic integration and development became affairs of public interest. In Europe, political considerations preceded economic causes as the basis for integration and afterwards economic issues became the determinant factors. The suppression of trade barriers was one of the major targets, because free competition was conceived as the best means to develop an area.

In underdeveloped regions it was believed that political independence

of the former colonial territories would have to be accompanied by economic independence (African Colonies) to foster optimum development. On the other hand, the experience of the world depression with the decrease in the sales and prices of raw materials, called for a more diversified economic structure in the independent countries. Both cases called for a different economic approach, and economic integration was viewed as a possible solution for their problems.

In this state of affairs Viner's study of the Western Europe integration movement provided the economic base for the new field (72). Those concerned with development in the broader sense, generally disregarded the possibilities of regional integration until the publication of Viner's books.

Comparing integration of Western Europe with underdeveloped regions in the post-war years, we find opposing tendencies. While Europe moved towards the Union of its economies, seeking the achievement of benefits as a result of wider markets, the underdeveloped regions were subdividing into smaller independent states with vulnerable economies¹.

After Viner introduced his study on integration, various proposals concerning the means and objectives of integration appeared. The liberalist² and the dirigist were the main ones (13). The former was in

¹As a result of these diverse cases a number of independent states, each with a population under two million inhabitants, have been created. In Africa, this is the case of Gabon, Mauritania and Sierre Leone; and in Latin America, of the Central American countries, Jamaica, Trinidad - Tobago and Guyana.

²Maurice Allais, Wilhem Röpke and M. A. Heilperin among others are proponents of the liberalist proposal.

favor of removing trade barriers, not only among a limited number of countries, but including the whole world. This argument, centered around the concept of limited state intervention, does not consider the harmonization of economic policies which is required in order to achieve economic development. This proposal is quite impractical if we think in world terms. The supranational concept of organization that should substitute for national sovereignty is a target difficult to attain in the near future. Perhaps more satisfactory results could be obtained from a smaller group of countries.

On the other hand some authors advocate an intensification of state intervention in economic affairs. French economists like Philip (59) said: "There is no alternative to a directed economy since the market can be extended not by liberalizing but by organizing". It might be admitted that a protectionist policy would be conducive to an autarkic situation. The protectionist interests would support creating an autarkic bloc in an integrated area, which would not be possible if the integrated unit were too small. Competition among the enterprises of the member countries will always contribute to the cost reduction. Factor movement liberalization will operate also in this way.

It has been widely accepted that a higher degree of government intervention is likely to be necessary in Latin America integration projects. This reflects the proposition that present-day underdeveloped countries, need more state interference in economic affairs than do advanced economies. In the former, market incentives alone are often not sufficiently conducive to development. Nevertheless, the role of private enterprise is emphasized in most discussions of Latin America integration,

and the sphere of government decision making may diminish as development proceeds.

We can infer from what we have said that the liberalist approach advocates an integration in world scale disregarding the possibilities for regional integration. This point is very important for developing economies, considering that liberalists pay more attention to the reallocation of existing resources when a union is organized, while in the developing areas integration must serve for the development of these resources.

The relevant objective of the less developed areas is the maximization of the rate of growth, and economic and social development¹. Given this situation, the major problem will not be how trade patterns will affect the reallocation of resources after the integration has been achieved but rather how to expand trade in order to generate such reallocation. Some authors think that the interest for integration in the underdeveloped world was a desire to imitate the European example and to escape the discriminatory effects of the European Common Market rather than an effort to impel economic development by means of integration. This statement could be sustained by Latin-American events. These countries, in danger of losing the European Market for their raw materials and tropical products, were under strong pressure to establish a regional organization to oppose the discriminatory effects of the European Common

¹Throughout this thesis the use of the term "economic growth" is intended to indicate an increase in the rate of real output of goods and services, while the term "economic development" is used to imply betterment of the productive structure, extension and sophistication of the infrastructure, and a more widespread and equitable distribution of income.

Market. In 1961 the President of The Government of Uruguay stated in a speech (5):

"The formation of the European Common Market and the European Free-Trade Association is almost like a state of war against Latin-American exports, and we will have to answer this with another integration; the inter-European cooperation, with the Latin-American cooperation".

Finally it is important to point out that Latin-America was the first region of the so called "underdeveloped world" which has considered economic integration as a means to achieve economic and social development. Only in recent years have some African and Asian countries begun to consider this possibility.

C. Effects of Economic Integration in Developing Regions

The analysis of economic integration in underdeveloped areas can be stated in terms of changes in the patterns of trade and welfare¹.

1. Changes in the patterns of trade and welfare

The trend and tendencies in the trade of a region will be reflected in the changes in its welfare. The relevant issue is the impact that trade will have upon welfare. The beneficial effects of the union will predominate, according to Viner, if trade creation outweighs trade diversion (73).

Trade creation takes place when we assume that the union to be created will include a lowest-cost producer. In this circumstance the

¹Up to now, many attempts have been made in order to create a functional theory of custom unions applicable to underdeveloped regions. Most of these proposals, however, are only slightly different from the classical theory. It is expected that such attempts will be further elaborated in the near future.

remaining members will switch their demand to such producer although some of them could be producing that commodity. At the end, the lowest-cost producer should be one of the sources of supply of such product and the degree of trade creation will be a function of the level in which the tariffs will be reduced. Other member countries will become suppliers as the tariff reduction goes on.

On the other hand, trade diversion is generated when a member country which, was importing a product from third countries before the customs union lowered its intrazonal tariffs, switches its imports to a member country to take advantage of the lower duties which discriminate against third countries. Assuming constant costs and a uniform tariff level, the production cost of third countries plus the tariff will exceed the cost of production of the member country.

The gains or losses in welfare that follow the establishment of an union area are reflected by the variations in production costs rather than volume of trade created or diverted. In this sense, it is important to consider the so called production and consumption effects (12).

The production-effects emerge when the domestic sources of supply are displaced by member countries in which the production costs are lower. The cost savings as a result of this shift will permit gains in welfare (positive effect), but on the other hand, the extra cost of producing a commodity in the partner country rather than in another foreign country may cause losses in welfare (negative effect) as trade diversion shifts the source of supply from lower-cost (foreign) - to higher-cost (partner) producers.

Finally it is also important to point out the interaction between

production and consumption effects. Changes in the production patterns will affect consumption and inter-commodity substitution will, in turn, lead to modifications in the production pattern. In this sense, the production-effect will tend to be more favorable, if the purchasing of a certain good from a member country is made at cost of the domestic supply instead of an outsider source. The more positive consumption-effects will prevail if the consumers substitute domestic merchandise for that coming from member countries without affecting the merchandise from third countries.

There are some other cases besides the above ones: When the union in formation does not include a lowest-cost producer. In this instance the removal of tariffs between participating countries will again create new trade, but this will only be a result of the exploitation of cost differences, which was previously prevented by the tariff (the argument of the competition effect can be quoted in this case).

When a country was a lower-cost producer before the union and the other countries did not produce the commodity under tariff protection. No change takes place after the union is formed; and finally, None of the member countries produces the commodity under tariff protection. In this case all members will continue being supplied by the former outsider and no change will happen.

Basically the classic customs unions theory states that, the gains and losses in welfare can be derived (12):

- i) The reallocation of resources as a consequence of the establishment of the union.
- ii) Economies of scale.

- iii) Changes in the terms of trade.
- iv) Changes in the efficiency as a consequence of the competition.
- v) Changes in the rate of growth.

Lipsey (43) states: "The theory of customs unions has limited itself almost exclusively to the analysis of point one with little attention to point two and three. Point five is ignored and point four is excluded from the traditional theory, assuming that the production process follows efficient methods".

Balassa (12) suggests the consideration of the following factors in order to apply the classic theory of integration to less-developed areas:

- i) Degree of Complementarity and Competitiveness among the participating economies.
- ii) Size of the Union.
- iii) Transportation Costs.
- iv) Degree of Intra-Regional Trade.
- v) Height of Tariffs.

Following Balassa's framework each factor will be briefly related to the case of LAFTA.

Degree of Complementarity and Competitiveness:

Viner's (73) definition states: "The greater the correspondence in kind of products of the range of high-cost industries as between the different parts of the custom union which were protected by tariffs in both of the member countries before custom union was established" the less the degree of complementarity – or the greater the degree of rivalry – of the member countries with respect to protected industries, prior to customs union. How can these concepts be applied to the present cases of economic

integration?

In the EEC the economies of the member countries are very much competitive with the exception of the agricultural sector. In the case of European Free-Trade Association (EFTA) more complementarity than competitiveness is found. Finally LAFTA¹ and the CACM are cases in which their members are quite competitive in raw materials and, complementary with advanced industrial economies.

According to Balassa (12), the welfare considerations have to be analyzed in terms of the type of export products (raw materials) and import products (manufactured goods). He distinguishes four groups of commodities:

- Primary products produced and exported by most of the underdeveloped countries. This is the case of products like coffee, cotton, bananas, etc. No resource reallocation can be expected after the union has been formed, because these countries are competing already in the world market.
- Primary products that can be obtained in only one or two countries of the region and imported by the others. The trade patterns will depend upon the commercial policies that are followed, and in the case of fuels and some tropical products (like hard fibers) the differences in climate and factor endowments. In these circumstances the removal of trade tariffs will hardly create additional

¹The so-called complementarity agreements were contemplated within the terms of the Treaty of Montevideo. These are preferential arrangements between countries closely linked by geographical proximity or common interests that provide for the apportionment of the manufacturing of various parts and components used in the same production process. These agreements were viewed as a way to avoid competition among partner countries.

trade.

- Manufactured goods (non-durable consumption goods) now produced in almost any underdeveloped country will be more efficiently produced as a consequence of the reallocation of resources¹. The cost difference will tend to be eliminated as a result of the tariff reduction.
- Manufactured goods (durable goods). This group includes most of the capital goods (industrial machinery), chemical products, etc. In this case considerations of trade diversion or creation are relevant because these goods are mostly imported from the non-industrial countries.

Complementarity and competitiveness when analyzed in a static sense only permit a limited appraisal of the convenience of a customs union in an underdeveloped area.

Size of the Union:

Meade (46), Tinbergen (67) and Viner (73) assuming unchanged economic policies — are in favor of larger areas. They support their thesis with arguments like: positive production effects; more rational production in function of a better division of labor; and more chances for reallocation of resources and production. They argue, at the same time, that successive increases in the size of a union would reduce the possibility of trade diversion.

Duncan (32), Hawtrey (34) and Röpke (60) disagree with the above

¹Sidney Dell states that "unless the resources being used in an inefficient industry are being promptly transferred to better uses, the misuse of them will lead to a net loss for the economy" (27).

position. Nevertheless their position is merely based on the possibility of protectionist tendencies in trade policies. Among their arguments is the large nation's tendency toward autarky. According to Hawtrey "the wider the extent of economic activity encircled by a tariff barrier of given height, the greater the effect of excluding goods of foreign producers". Tinbergen claims that trade creation, in a larger union, will more than offset trade diversion. On the other hand, static assumptions of unchangeable economic policies tend to support the second group's theory. The question then arises: To what extent will economic policies remain unchanged in a custom union?

Various definitions of market size have been given. The population and the geographical area are concepts that have only a limited application. For example the population of a region would not reveal the possibilities of the division of labor in such region and would falsely intimate that, for instance, the economic area of China or India was greater than that of the USA.

The theorists in the field maintain that measuring the volume of production in terms of Gross National Product (GNP) should give a more accurate picture¹.

In terms of patterns of consumption, perhaps Latin America enjoys an advantage over other areas. Most of the Latin American preferences and habits of consumption have a quite homogeneous denominator, based on a common background. Other regions show a different picture. Black

¹We have to take into account the fact that the underdeveloped regions have a big subsistence sector and when calculating the GNP this should not be considered according to the technicians in the field.

Africa's patterns of consumption differ from Arab Africa, and in Asia the differences are even bigger.

The dynamic possibility of a future standardization in tastes cannot be neglected. Therefore a limited importance should be placed on the difference in consumption patterns. The changes that will take place in the countries comprising a region will be more horizontal than vertical and also subject to how the goods were suited to the domestic tastes.

One more consideration will have to be remembered: bargaining power. It has to be admitted that areas involving more countries will be in a better position to bargain than smaller ones. The experience supports this fact, for we have the example of BENELUX within the EEC. The retaliation applied by the EEC against the USA, when this country increased their custom duties on certain products, could not have been carried out by the three small BENELUX countries acting alone. This perhaps could be applied in a certain way to cases like LAFTA and the CACM. The negative side of increasing bargaining power is the possibility it will be used to create a protected zone which discriminates against world trade to the detriment of general welfare.

Transportation Costs:

The location of the production and consumption centers is closely related to transportation costs. The propinquity between them can be a way to measure the feasibility of a customs union.

Balassa (13) states some advantages in relation to this:

- The distances to be traversed are shorter in the case of neighboring countries.

- Tastes are more likely to be similar, and distribution channels can be more easily established in adjacent economies.
- Neighboring countries may have a common history, awareness of common interests, etc., and would be more willing to coordinate policies.

Perhaps LAFTA and the CACM are - among the underdeveloped regions - the most relevant cases over which these advantages can be applied. In both of them the common interests are regarded as a cohesive force of primary importance.

It has to be recognized that the transportation facilities in both LAFTA and the CACM are very deficient and trade expansion will create a strain on transportation and services. It can also be argued that transportation costs will be a tremendous problem to any attempt to form a Latin American union. Nevertheless this conclusion might be challenged on the grounds that new developments in transportation may change the picture in the coming years (dynamic assumption) (26).

This is already happening with the different transportation projects underway in Latin America. (This aspect will be explained in more detail in the part corresponding to LAFTA.) Another way to analyze transportation would be to consider the pressure that the union will apply to promote an intensive investment in infrastructure of transportation. This can be supported with the achievements already realized in LAFTA countries. One negative factor in this context would be the alternative investment a country must give up to develop transportation systems.

Degree of Intra-Regional Trade:

This is another way to measure the possibilities of creating a custom union. It has to be understood once more that this fact cannot be strictly applied to underdeveloped areas. In the different examples of economic integration, the EEC showed the greatest percentage of intra-regional trade before the union was established, i.e. 30%. Latin America's intra-zonal trade amounted to 7% and the countries now forming LAFTA accounted for only 6%. (See Table 14.) There are many factors that limit inter-country trade in such regions, including transportation facilities and roads systems (66). The comparison between European and Latin American cases of custom unions, in terms of intra-zonal trade relations, will reflect the disparities in the level of development and hence the irrelevancy of using this argument. The LAFTA countries, before the union was formed, involved a quite complicated trade mechanism. The system of custom duties, a number of bilateral agreements, and the lack of functional payments challenged the fluidity of the region's intra-zonal trade.

Height of Tariffs:

Countries in early stages of development usually maintain very high tariffs. Their infant industry sometimes is so protected¹ that there is no possibility to build up an efficient and competitive industry. Balassa (13) points out "The higher the average level of initial tariffs between the participating countries the more advantageous the production effects". In this case the gradual removal of tariffs, within any of the

¹One has to make a distinction between the protective and the revenue effect of a tariff. In terms of productive efficiency both can be considered identical.

forms of integration, will bring a situation of full competition with a consequent benefit to production efficiency. The tariff barrier against third countries will reflect the effects of trade diversion. The higher the tariffs for products originated outside the union, the higher the trade creation.

2. Economies of scale and external economies

The classical theory considered economies of scale and external economies. The former includes the so called internal economies. Marshall interpreted internal economies in the following way: decreasing costs are said to prevail if the firm's cost curve is downward-sloping and reversible. An increase in the quantity produced will then lead to lower costs and subsequent reduction in output would re-establish the previous cost relationships. The enlargement of the market will produce a triple effect over the production of an industry:

- With a larger market, the plants will be built on a larger scale or small size plants will be integrated. The ultimate objective will be the reduction of production costs.
- A number of activities can be run by automatic plants as a consequence of bigger markets.
- Wider markets will make possible the reduction of the products variety of each plant, hence the series of production could be increased.

In other words, an increase in the market size will permit the establishment of larger plants with both horizontal and vertical specialization. In the case of LAFTA the existing market for industrial

products, size of the industrial plants, product differentiation, transportation costs, and potentialities of the future growth of market and plant sizes will be the variables considered.

Applying these concepts to the requirements of LAFTA; the Economic Commission for Latin America (ECLA) estimated a reduction of 10% in the costs of production of the textile industry if it could double its production (57). Likewise a study made by Victorisz and Manne about the fertilizer requirements in Latin America for 1965 showed that the whole region could have been supplied by one integrated plant only (72). In another ECLA study it was estimated that the steel industry in Latin America could be operated on an efficient basis with an integrated plant producing more than one million metric tons of pig iron; a capacity of half a million tons would increase costs approximately 18% and 33% if the plant produces only a quarter million tons.

The automobile industry is a typical example to which the vertical and horizontal specialization can be applied. According to Dell (27) production of 600,000 units per year in a single plant would be an efficient output. Nevertheless Latin America now produces half of that amount in 40 plants. The perspectives in terms of plant integration are very auspicious considering that the enlargement of the market will permit achievement of higher profits, and the establishment of plants producing automobile components and spare parts. Benefits of this kind can be shared by all the member countries.

Some industrial sectors need to be integrated in order to achieve a sustained efficiency of production (automobile industry for example). On the other hand some industries are very much limited in terms of output

and costs by the size of the market. It should be noted that the gains from specialization can be partly offset by transportation costs. This consideration has particular relevance in the LAFTA region where economic distances between Mexico and Argentina, or between the north-eastern parts of Brazil and Chile will interfere with the achievements of such gains.

Alfred Weber in his Theory of Location Industries (74) states that: The norm for optimum location represents an equilibrium between economies of scale and transportation costs.

In terms of benefits it is interesting to quote Dell and Balassa's points of view. On the one hand Dell (31) states that the substitution of large units for small plants will produce benefits only if the excess of labor force can be automatically switched to better uses, otherwise the economy will suffer a net loss¹. Dell adds that underdeveloped countries have established their industry after overcoming a number of difficulties and through great effort, hence they will be reluctant to admit the possibility of direct competition.

Balassa (12) states on the other hand, that the substitution of larger units for small plants - considering that the **capital of the** existing plants represents a foregone opportunity - will take time. In the future the existing plants will operate on a competitive basis until their variable costs are lower or equal to the total costs of the new units.

It has been said that the stagnant industries will suffer more from

¹This position was adopted in the first LAFTA negotiation held in 1961.

competition than the so called fast growing industries. Prebisch talks about the "industries with vegetative growth" referring to the sector producing nondurable consumption goods. From the available data we can foresee that the demand for nondurable consumption goods in underdeveloped regions (like LAFTA) is elastic, hence it is expected that the production of those industries will at least increase with the growth rate of national income, although not at that of industrial production (textile industry is a good example).

We can finally infer that the perspective for the LAFTA area in terms of external economies are of much importance. Marshall has defined external economies as depending on the general development of industry, on the growth of correlated industrial branches, on the general progress of industrial environment, and on the increase of the market size. Balassa (13) re-defined this concept. He states that there are divergences between social and private products, when social and private products are interpreted as the present value of future (direct and indirect) benefits.

Basically external economies are classified according to their operation in the market:

- Those which operate outside the market mechanism comprise three types:
 - a) Static, of which Meade's case of the bee-orchard is a typical example;
 - b) Dynamic, those which operate through time and comprise the spreading of technology and organizational know-how, and the development of a managerial class and a skilled labor force.

Those which operate through the market, involving dynamic changes. These pecuniary economies include market interactions between industries that entail a divergence between private profitability and social productivity.

Francois Perroux (58) expounds the thesis that a growing industry creates external economies for supplier and user industries and that such industry, together with the industrie motrice forms a "pole of development", which in turn, contributes to the growth of the economy. The market size, again, will play a very important role because of the structural change that will take place within individual industries. A wider market makes possible the segregation of various functions in an industry. These specialized undertakings will constitute new industries. Generally, the wider the market, the larger the economies from specialization.

Great emphasis is laid on gains from specialization in Latin America. ECLA's study about the industry in this region shows the possibilities of specialization in the pulp and paper industry and in cotton textiles.

The external economies argument for integration has special force in underdeveloped countries. They will create a kind of chain reaction: integration would give rise to external economies through the interdependence of industries; an increase in the market size is likely to create "growing points" that will permit the introduction of advanced technology in the supplier and the buyer industries; innovations in one industry will generate external economies through the transmission of technological change to vertically independent industries. An expansion in industries producing final commodities will have a similar effect on

producing preceding stages of manufacturing.

3. Reciprocal benefits

We have discussed the implication of a big market and how this will be reflected in a more efficient reallocation of resources and achievements of economies of scale. A common question which arises when a customs union is organized deals with the benefits that the area will gain from the new states. In order to answer this question, two goals have to be taken into consideration: On the one hand, the individual benefit of each member country and on the other hand, the total benefit of the whole region comprised by the union.

Although the net benefits, (in terms of gains) that each country will achieve are very difficult to measure, some empirical conclusions can be reached. First of all, it has to be considered that underdeveloped areas comprise mostly countries with quite heterogeneous stages of development, and the economy of each member will be directly affected by the union being formed. The factor endowment, the purchasing power and the income distribution will be the factors determining the extent of gains. Undoubtedly the size of the country will be very important in order to measure any gain. Small sized countries like Paraguay or Ecuador will achieve only limited benefits from a market like LAFTA¹, compared to the more economically developed members like Brazil, Argentina or Mexico.

In terms of the region as a whole, there is no presumption in

¹This is quite relevant under dynamic assumptions. Industrialization and an efficient resource allocation will have to be the dynamic means in this case.

economic theory that a customs union will necessarily result in net benefits to every one of its members; nor is the factual evidence conclusive. The cases of the southern states of the USA, southern Italy, and the "Sierra" region of Peru demonstrates the possibility of coexistence of areas of sustained high prosperity with regions of prolonged stagnation.

In recognition of this, the Montevideo Treaty grants special treatment to countries like Ecuador and Paraguay under the status of "relatively less developed members". The gradual spread of benefits among members of the union will be increased as the heterogeneous factors are overcome. It will have to be clearly understood by the member countries that the ultimate goal that will determine the share of benefits will be the region's benefit (location theory will play an important role as much as transportation facilities). Any thought of autarky will have to be removed and the development of the chosen poles of development will directly influence the development of each part of the union. In the long-run, the overall situation will show a positive balance, with a net gain for the region as a unit. But it cannot be forgotten that, although a sound development policy inevitably requires the equalization of growth rates throughout the area concerned, it may well be that, for any area regarded as a single unit, the most efficient way of developing may lie through deliberately unequal rates of growth in various parts and an intentional concentration of effort in the richer and more advanced regions (29). This may apply particularly when one starts from a very low level of development and encounters major indivisibilities, especially in outlays for social overhead investment. Yet if the cohesiveness of a regional trading agreement is to be

maintained or strengthened, it is vital that all participating countries should gain from the arrangement more than they could have gained without it. It is highly desirable that any inequality in gains by various member countries should be held within reasonably narrow limits (30).

III. EVALUATION OF THE LATIN AMERICAN FREE TRADE ASSOCIATION

A. Background

In any treatment of Latin America as a group of nations sharing the same economic problems and social aspirations and therefore having basically common interests vis-a-vis the rest of the world, there is a strong temptation to go beyond the individual analysis of the economy of each single country and consider the region as a whole.

Historical reasons, ethnic affinity, political motives and economic convenience support the suitability of such an analysis. The economic and social development of Latin America viewed as a process of integrating its component nations and abolishing economic, cultural, social and perhaps political frontiers was Bolivar's dream of "The Greater Colombia", This has not yet been fulfilled even on the small scale of Morazan's attempted "Federation of Central American Republics" (70).

The movement in favor of economic cooperation in Latin America began in the early 1950's. At this time ECLA became concerned with the decline in intra-regional trade and the deterioration of general external conditions necessary for the region's development¹. Until 1956, however, no one in the region, including the ECLA group itself, had any clear notion of how Latin American regional economic integration should be implemented

¹In 1954 ECLA published the following studies: "Study of the Prospects of Inter-Latin American Trade" and "International Cooperation in a Latin America Development Policy". Both were a positive contribution to understanding the situation and possibilities it held for economic integration of the region (75).

Theoretical literature on customs union, common markets, and free trade zones was in its infancy and clearly dominated by the thinking of neo-classical economists from the developed countries. Moreover, apart from the experience of the Zollverein in the nineteenth century and of BENELUX in the postwar period, no practical examples of economic integration were available.

The concept of regional cooperation based on trade preferences as a means of accelerating Latin American economic growth appeared for the first time in studies elaborated in 1956-57 by the ECLA Trade Committee. The idea of regional economic cooperation was fully discussed for the first time at the Organization of American States (OAS) meeting of ministers of finance at Buenos Aires in the fall of 1957. Concepts were far from clarified (75). Debate ranged from proposals for a common market, a free trade zone, or sub-regional trade grouping, to a proposal for hemispheric integration. In August 1958, experts from Latin America met at ECLA headquarters for consultation on a program of liberalization of trade barriers other than customs tariffs. They agreed that "rapid and resolute steps must be taken to establish an intra-regional preferential customs tariff", which would impart substance and stability to the liberalization measures. The group concluded that it would be necessary to invoke the provisions of GATT, in order to institute a "Latin American exception" to the most-favored-nation clause.

Concrete proposals were elaborated and presented at the ECLA Biennial Conference in Panama in May 1959. This project involved the four southern zone countries and was submitted to the Trade Committee. At the same time,

consideration was given to the recommendations of the working group, which had done a parallel study on the basis and structure of a Latin American Common Market (75). The advanced stage reached by the four southern zone countries in their negotiations gave rise to concern in other countries, including Mexico and Peru.

In June 1959 - with Bolivia, Paraguay and Peru also invited - a consultative meeting of experts from Argentina, Brazil, Chile and Uruguay was held in Lima. Uruguay then convened a diplomatic conference for the purpose of concluding a treaty to establish a free trade zone between the seven countries. Mexico and Venezuela were also invited to send observers. These negotiations - which were carried out at Montevideo in September 1959 - resulted in a formal proposal for a Free Trade Zone Treaty to be ratified in February 1960.

Meanwhile, in October 1959, six Latin American countries - Argentina, Bolivia, Brazil, Chile, Peru and Uruguay - (the last four as members of the General Agreement on Tariffs and Trade (GATT)—had notified GATT of their intention to set up a Latin American Free Trade Area in accordance with the proposal drawn up in September 1959. They stated that they considered the proposal to be consistent with the provisions of the Article XXIV of the General Agreement. In December, during its fourteenth session, the U.N. General Assembly unanimously adopted a resolution on the Latin American Common Market in which it expressed the hope that this market would help to expand and diversify trade among the countries of the region, and between them and other regions of the world, and to accelerate their national and regional economic development.

The Treaty of Montevideo was signed on February 18, 1960 by the foreign ministers of seven participating countries: Argentina, Brazil, Chile, Mexico, Paraguay, Peru and Uruguay. Colombia signed at the end of November 1961 and Ecuador in December 1961. Recently Venezuela (23) and Bolivia (24) have been added, the former in August 1966 and the latter in February 1967. In 1967 LAFTA is composed of eleven members.

B. Objectives

The main objectives of LAFTA are expounded in the preamble of the Treaty of Montevideo (69). In this part the signatory governments have considered that the achievement of:

- A progressive complementarity and integration of the members' national economies;
- A market expansion;
- A more even share of benefits for the relatively less developed members; and
- A higher economic and social development;

should be accomplished through the following means:

- Promotion of regional integration;
- Gradual elimination of intra-regional trade barriers;
- Appropriate measures for relatively less developed members; and
- Maximum utilization of available production factors and more efficient coordination of development plans.

It can be inferred from this preamble that the signatory countries committed themselves - through the Treaty - basically to foster and promote

the "Economic and Social Development" of the region. This ultimate goal is expected to be fully achieved through the operation of the final end: "The Latin American Common Market".

C. Mechanisms

The machinery provided by the Treaty of Montevideo is simple in concept but complex in practice. It embodies not only provisions for gradual trade liberalization within the area, but it also outlines provisions for a more ambitious regional economic integration program. The treaty stipulates that within a period of twelve years from the date of the Treaty's entry into force the member countries will gradually eliminate from their reciprocal trade, the duty, charges and other restrictions on the import of commodities and goods originating in the territory of any contracting party.

The trade liberalization program is to be achieved through periodic negotiations establishing (27):

- National Schedules, specifying annual concessions which each country is to grant to the others; and a
- Common Schedule, listing the products on which the contracting parties collectively agree to eliminate - in no more than twelve years - all duties, charges, and other restrictions on imports of goods originating in the territory of any contracting party. (For the purposes of the Treaty, duties and charges mean customs duties and any charges of equivalent effect).

Each contracting party is committed to grant to other LAFTA members annual reductions in duties and charges amounting to no less than 8% of

the weighted average applicable to third countries.¹ The Common Schedule is applicable to products which constitute - in terms of the aggregate value of trade among the member countries - 25% of this trade after the first three years, 50% after six years, 75% after nine years, and "substantially all of such trade", at the end of the twelve year period. Concessions on products appearing only in the National Schedules may be withdrawn by negotiation, but the inclusion of products in the Common Schedule, however, is final and irrevocable. The percentages governing the gradual expansion of the National and Common Schedules shall be calculated on the basis of the average annual value of trade during the three years preceding the one in which each negotiation is effected.

Through the so called "Safeguard Clauses" (Articles 23-26), the Treaty considers the situation of the domestic industries and the financial problems of the member countries. There are two specific instances in which these restrictions can be applied:

- If imports of products from the area under the liberalization program have, or are liable to have, serious repercussions on specific production activities of vital importance to the national economy.
- If a seriously unfavorable over-all balance-of-payments situation arises.

$$i_t = T (1 - 0.08 n)$$

i_t = weighted average of the duties applicable to the imports coming from the other member countries,

T = weighted average of the duties applied to third countries, and

n = number of years of the enforcement of the treaty.

In the first case, the contracting parties may authorize a given country to impose temporary non-discriminatory restrictions upon imports of products included in the liberalization program which originate in the area. In the second situation, the contracting parties may likewise, also on a temporary basis, authorize a member country to extend intra-regional trade measures in order to correct an overall balance-of-payments disequilibrium. These safeguard clauses do not apply to goods included in the Common Schedule. Although temporary import restrictions can be applied to them under specific circumstances, these products are not subject to subsequent renegotiation. If these measures remain in effect for more than one year, the LAFTA Conference will automatically initiate negotiations to eliminate them.

The Treaty considered the state of development and market size of member countries in order to get the most even share of reciprocal benefits. Through Article 32, the Treaty of Montevideo granted a special status to Bolivia (recently added in 1967), Ecuador and Paraguay. They were considered within the so-called "Relatively Less Developed Countries"; the 1963 Conference of the Contracting Parties approved a resolution (Resolution 71-III) (96) by which Chile, Colombia, Peru and Venezuela (in 1967) were granted the status of "Insufficient Market Countries".

With regard to the agricultural sector the Treaty states the following: The member countries shall seek to coordinate their agricultural commodity trade policies in order to achieve the most efficient utilization of their natural resources (i.e. raising the standard of living of the rural population and guaranteeing normal supplies to consumers) without

disorganizing the regular production activities of each contracting party. Each member country may limit their imports of agricultural commodities to the amount required to meet their deficit of internal production giving priority, under normal competitive conditions, to products originating in the area and attempting to expand such intra-regional commercial exchange. To facilitate economic growth in the less developed countries, the Treaty provides for:

- Unilateral concessions to be granted by any of the more advanced LAFTA members to encourage the introduction or expansion of specific productive activities.
- Implementation of the trade liberalization program under more favorable conditions specially agreed upon.
- Special non-discriminatory measures aimed at the protection of domestic industries in the developed countries, whether for balance-of-payments reasons or for the purpose of lending temporary encouragement.
- Collective arrangements for financial and technical assistance to be extended by LAFTA countries as a whole or by any group of them.¹

Provisions for complementarity and competition are contained in Chapter III of the Treaty. The contracting parties commit themselves to facilitate increasing integration and complementarity of their economies,

¹The LAFTA member countries are grouped, according to their state of development and size of their markets, in two groups: a) relatively less developed countries: Ecuador, Paraguay and Bolivia (Article 32); b) Insufficient market countries: Colombia, Peru, Chile, Uruguay and Venezuela (Resolution 71-III).

and to make every effort to reconcile their import and export regimes, as well as the treatment they accord to capital, goods, and services from outside the area. In order to ensure fair competitive conditions, the member countries shall endeavor to promote progressively closer coordination of the corresponding industrialization policies and shall sponsor, for this purpose, agreements among representatives of the economic sectors concerned and may negotiate mutual complementary agreements by industrial sectors.

Finally, the Montevideo treaty establishes two LAFTA organs: a Conference of the Contracting Parties and a Standing Executive Committee. The Conference meets at least once a year to adopt "on a one country, one vote, basis", decisions on all the main issues. Even though the decisions have to be supported by at least two-thirds of the voters, each member has a veto right over all substantive questions (28). The Executive Committee is the permanent organ of the Association responsible for supervising the implementation of the provisions of the present Treaty. It is composed of representatives of each member country and has a Secretariat headed by an Executive Secretary and staffed by technical and administrative personnel. ECLA and the OAS act as the association's technical advisors.

D. Achievements

Although LAFTA has had a relatively short period of life some of its achievements can already be analyzed. It is becoming quite fashionable among some economists, to analyze LAFTA achievements in comparison with the EEC. This comparison is not quite relevant considering that the EEC

is composed of member countries at a different stage of development. As stated before, the classic theory of customs union may be inappropriate for measuring the achievements of underdeveloped areas. This is not to say that an organization like the EEC does not in some respects provide a model to be utilized for LAFTA activities.

Any review of LAFTA's achievements and shortcomings must be based upon a recognition that the Treaty of Montevideo was the beginning of a process, not the end; and that this process will have to continue for many years before sure foundations have been laid for a common market in Latin America. It is interesting to quote Wionczeck's (75) opinion on this point: "One can somewhat optimistically assume that the Association will muddle through despite periodic crises for at least two reasons:

- No combination of anti-integration forces can afford to fight LAFTA openly, and
- No Latin American country, that is a member of the program, can withdraw from it without very serious domestic political consequences".

1. Trade negotiations

As far as tariff-cutting is concerned, the program of trade liberalization achieved a certain initial measure of success following the entry into force of the Treaty of Montevideo.¹

The concessions granted by the member countries to each other were over the positions or sub-positions of the Latin American Free Trade Association Brussels Tariffs Nomenclature (LAFTABTN). This means that the

¹ The negotiations were held at the regular sessions of the Conference in the following cities: Montevideo 1961, Mexico City 1962, Montevideo 1963, Bogotá 1964 and Montevideo in 1965 and 1966 (27).

concessions covered not only one product but sometimes more than one because each position or sub-position comprises many items.

The following Table 1 will enable us to see more clearly the evolution of the concessions regime. During the first negotiation (1961) a total of 3,246 concessions were granted. The concessions in percentage of member countries was relatively well distributed; it ranged from 10% to 19% with the exception of Chile, Mexico and Peru (8.3%, 8.9% and 7.0%). In the second round of negotiations (1962) a total of 4,347 concessions were granted. This shows an increase of 14.7% over the previous one, the third (1963) round made only 655 concessions and this represents a decrease of 91.4% over 1963. The fourth (1964) round again showed a decrease with only 226 concessions given, which is 65.5% less than in the third round (1963). Finally, at the fifth round (1965) the total concessions were 580, having an increment of 39.0%. It has been reported by the Executive Secretary of LAFTA that 10% of the new concessions, granted in that round, applied to machinery and electric materials (22). This is really an improvement in relation to previous negotiations, because the scheme of traditional products was beginning to change and trade was becoming more diversified.

It is furthermore clear that liberalization is becoming increasingly difficult. This is a result of the release of the tariff duties upon traditional goods that LAFTA usually traded, and the fact that obvious concessions had already been granted (see Table 13). Perhaps this is why the competitive effects of trade through liberalization caused such concern

Table 1. Evolution of the concessions^a (number of concessions)

Country	1961		1962			1963			1964			1965		
	Annual	%	Annual	Cumu- lative	%	Annual	Cumu- lative	%	Annual	Cumu- lative	%	Annual	Cumu- lative	%
Argentina	414	12.7	658	1072	14.1	208	1280	15.5	83	1363	16.1	174	1537	17.0
Brazil	619	19.0	631	1250	16.1	62	1312	15.9	40	1352	16.0	159	1511	16.7
Chile	268	8.3	351	619	8.1	85	704	8.5	10	714	8.4	31	745	8.2
Colombia	343	10.6	490	833	11.0	31	864	10.5	8	872	10.3	22	894	9.9
Ecuador ^b	-	-	1714	1714	22.6	-37 ^c	1677	20.3	3	1680	19.8	5	1685	18.6
Mexico	288	8.9	319	607	8.0	120	727	8.8	75	802	9.5	135	937	10.4
Paraguay	520	16.0	69	589	7.8	76	665	8.1	-2 ^c	663	7.8	14	677	6.5
Peru	227	7.0	72	299	3.9	56	355	4.3	9	364	4.3	28	392	4.3
Uruguay	567	17.5	43	610	8.0	54	664	8.1	0	664	7.8	12	676	7.4
Total	3246	100.0	4347	7593	100.0	655	8248	100.0	226	8474	100.0	580	9054	100.0

^aSource: (3).

^bEcuador signed the treaty at the end of 1961.

^cThe negative values are because of the withdrawal of some products.

to some member countries. It was estimated that the tariff reductions averaged about 25% in the first round and 15% in the second, well in excess of the 8% average required under the Treaty.

In country terms, Argentina and Brazil account for more than 30% of the cumulative total of concessions. Peru is in last place, with only 4.3% as a result of its traditionally low customs duties. The number of concessions granted is not, however, in itself a measure of the market opportunities afforded to trading partners. In some cases, the value of tariff concessions is limited by the application of other restrictions (notably licensing). Colombia and Mexico used this procedure in 1963. They required import licenses for 22% and 7%, respectively, of the products listed on their National Schedules, but they gradually eliminated them.

The analysis of LAFTA negotiations can also be made in terms of intra-regional imports. Table 2 gives such figures. In 1962, LAFTA imports were comprised of 77% negotiated commodities and 23% non-negotiated. This ratio increased after each of the following negotiations. In 1963 the situation showed 85% for negotiated and 15% for the other. Finally in 1964 the highest levels were reached; 89% for negotiated and 11% for non-negotiated imports (data for 1965 are not yet available).

In terms of countries, Argentina and Brazil had in 1962 the highest participation, 79% and 87% for their negotiated imports. The picture changed in 1963, because all the other countries - except for Paraguay with only 22% - had a very significant increase in their participation. In 1964 the situation was almost the same as in the year before, only

Table 2. Negotiated and non-negotiated LAFTA trade^a (thousand dollars)

Year	Country	Intra-regional imports				Total Value
		Negotiated		Non-negotiated		
		Value	%	Value	%	
1962	Argentina	81.3	79	21.8	21	103.2
	Brazil	112.0	87	16.6	13	128.6
	Colombia	5.8	46	6.7	54	12.5
	Chile	55.1	68	25.4	32	80.5
	Ecuador	-	-	3.9	100	3.9
	Mexico	4.1	68	2.0	32	6.1
	Paraguay	1.7	29	4.3	71	6.0
	Peru	32.2	71	12.9	29	45.2
	Uruguay	26.4	78	7.7	22	34.0
	LAFTA	318.6	77	101.3	23	420.0
1963	Argentina	92.5	91	9.1	9	101.6
	Brazil	147.3	90	16.6	10	163.9
	Colombia	19.5	91	1.8	9	21.4
	Chile	93.6	78	26.4	22	120.0
	Ecuador	4.0	77	1.2	23	5.2
	Mexico	9.1	84	1.8	16	10.8
	Paraguay	1.8	22	6.6	78	8.4
	Peru	54.4	88	7.5	12	62.0
	Uruguay	24.2	76	7.5	24	31.8
	LAFTA	446.4	85	78.5	15	525.1
1964	Argentina	157.9	93	12.7	7	170.7
	Brazil	161.5	96	6.5	4	168.0
	Colombia	31.1	94	2.0	6	33.1
	Chile	116.1	90	12.8	10	128.9
	Ecuador	6.5	80	1.6	20	8.0
	Mexico	15.0	86	2.4	14	17.3
	Paraguay	2.9	25	8.6	75	11.6
	Peru	48.7	83	10.1	17	58.9
	Uruguay	34.3	70	15.0	30	49.3
	LAFTA	574.0	89	71.7	11	645.8
1965	Argentina	232.3	91	23.4	9	255.7
	Brazil	183.7	96	6.7	4	190.4
	Colombia	36.0	94	2.4	6	38.4
	Chile	113.7	93	7.8	7	121.6
	Ecuador	N.A. ^b	N.A. ^b	N.A. ^b	N.A. ^b	8.9
	Mexico	21.1	71	8.6	29	29.7
	Paraguay	2.5	22	8.9	78	11.4
	Peru	63.1	78	17.7	22	80.9
	Uruguay	26.3	82	5.7	18	32.1
	LAFTA	N.A. ^b	N.A. ^b	N.A. ^b	N.A. ^b	769.1

^aSource: (8).^bNot available.

Uruguay's participation declined from 76% to 70% (Negotiated). For 1965 (only some countries have to date supplied their information) Brazil, Colombia and Chile all had more than 90%.

For the period 1962-63, participation of negotiated imports increased 40% and non-negotiated decreased 21%. The progress in the following period (1963-64) was less dynamic. Negotiated and non-negotiated imports increased and decreased 29% and 10% respectively. We can infer from these figures that intra-LAFTA imports mainly developed through the negotiated channels. In other words the concessions granted comprised a higher percentage of total intra-zonal imports (negotiated imports).

In 1965 a very important step was taken in order to liberalize and facilitate the system of negotiation. The high-level meeting of Ministers of Foreign Relations held in Montevideo in November 1965 passed a resolution related to this matter (Resolution No. 8) (10). It recognized the necessity of adopting an automatic mechanism, in order to assure more dynamism in the process of reduction and elimination of tariffs and restrictions. At the fifth period of regular sessions of the Conference this resolution was not approved. Although the latter was an unfortunate decision, the fact that the resolution did take place was an important step towards an improvement in the process of tariff reduction.

2. Institutional matters

Perhaps much of the weakness in LAFTA's institutional machinery is due to lack of a real decision-making power. In multi-nation areas such as LAFTA's, it is often difficult to facilitate and coordinate high-level

decisions, because the member countries will be preoccupied with domestic problems.

It did not take long before countries began to realize that tariff-cutting by itself would not achieve LAFTA's goals. The need for harmonizing the economic policies of LAFTA members and for jointly planning the integrated development of the area became increasingly evident. With this also came the recognition that if governments were to agree on significant adjustments in their national policies and programs, the issues would have to be explored carefully at the working level, and then presented for decision at the highest political level.

Raúl Prebisch advocated this approach in the second annual LAFTA meeting in 1962. In response to this appeal, the Presidents of Brazil and Chile in 1963 signed a joint declaration calling for a meeting of Foreign Ministers of the LAFTA countries to give new political impetus to the program of regional cooperation. The declaration went quite far in proposing permanent consultative machinery, at the level of Foreign Ministers (75), a move which would have created an institution analogous to the powerful Council of Ministers of the EEC. Although the joint declaration made by Brazil and Chile received quick support from the governments of Argentina, Paraguay and Peru, the meeting was not held until November 3, 1965. The main objective of the meeting was to adopt the political solutions necessary to give impetus to the economic integration process. This represents one of the transitional steps in the evolution of the Latin American process of integration. The creation of the Council of Ministers of Foreign Relations of the LAFTA Countries meant that the enterprise would

receive highest-level political support. The Conference of the member countries approved the creation of the Council of Ministers of Foreign Relations in its regular period of sessions following the Ministers' meeting (Resolution 117-V).

The supranational approach is really the primary institutional text of the success of the Latin American integration process. In order to face it many proposals have already been made. Felipe Herrera (35), President of the Inter-American Development Bank (IDB), suggested the creation of not only economic but also political institutions. He suggested a Latin American Parliament, an Inter-American Court of Justice, and an Organization for Economic Cooperation and Development as the means to the total union of Latin America (47). A step in this direction was taken in December 1964, when a conference of Latin American parliamentarians in Lima, decided on the establishment of a permanent "Latin American Parliament", to work for the creation of a regional economic community.

3. Investment

LAFTA's achievements in the investment area can be distinguished within the two types: private and public. Regarding the first the present situation is encouraging. There is a widespread view that one of the primary purposes of any regional common market in underdeveloped areas is to attract foreign capital.

In the case of LAFTA, the available evidence does not permit firm conclusions as to how much foreign and member-country private capital has

in fact responded to any expected enlargement of Latin American markets. It has to be admitted, nevertheless, that most of the international companies having substantial interests in Latin America are represented at LAFTA headquarters in Montevideo and they are following developments there very carefully. This fact sheds some light upon the investment expectations in business circles.

Domestic businessmen have shown a growing but cautious willingness to commit a part of their capital to LAFTA investments.¹

The public investment process in the LAFTA area is already taking very important steps. Any type of multinational venture would have to be financed by an international financing agency. In this sense the IDB has become the sponsor of LAFTA's multi-national projects. In November 1965, the IDB and LAFTA's Executive Secretariat signed an agreement by which the former will provide to the latter a fund of \$100,000 to finance studies on the execution of three programs of integration. These programs

¹ The firm "Protexa Mexicana", a manufacturer of gas and oil pipes, asphalt and anti-corrosives, and fiber glass started joint ventures in five South American countries. One of its foreign moves was a \$150,000 outlay for 66% ownership of a Chilean asphalt plant and a \$100,000 investment for 50% of a Venezuelan plant of the same type. The Chilean steel industry, through the Government Steel Corporation "Compañía de Acero del Pacifico" (CAP), was recently winding up negotiations with private Ecuadorian interests to form the "Acerías Nacionales Ecuatorianas" which will produce steel rods. Capital-short CAP is making a \$280,000 equity investment in the form of technical and managerial assistance. The new company will have an initial paid-in capital of \$500,000 (to be expanded to \$700,000) of which CAP will hold 40%. The total cost of the project is estimated at about 1.5 million dollars. (Business International, New York, May 15, 1964).

will cover the industrial sector; agricultural activities; and aid to so called "relatively less developed countries". LAFTA will finance additional technicians and try to get the participation of the Food and Agriculture Organization (FAO) and ECLA. Last December 1965, IDB President Felipe Herrera reported to the LAFTA Permanent Executive Committee about the resolution taken at the Meeting of the Board of Executive Directors of the Bank held in Asunción, Paraguay, in April 1965. It was decided there that the IDB will be transformed into the Latin American Integration Bank. This is an important advance which favors the growth of the required zonal industry.

The 1965 Meeting of Ministers of Foreign Relations recommended the organization of a Pre-Investment Fund, and the Fifth Ordinary Conference of the Member Countries approved this recommendation. The creation of the Pre-Investment Fund is the single most important event in the region's investment program in order to spur economic integration.

The Fund was created by the Bank's Board of Executive Directors. It was established on August 1966, with an initial balance of 15 million (17). The USA recently has contributed an additional 1.5 million (18). The main objectives of the Fund will be to foment multinational projects following the resolution adopted by the Board of Governors at its Seventh Annual Meeting held in Mexico City in April 1966. According to the resolution of the Board, the Fund will be used to finance high priority pre-investment studies in the following fields:

- Multinational infrastructure works, including highways, air, marine

and river transportation, communication systems, and related regional services.

- The integrated development of geo-economic zones covering areas in two or more countries, as in the joint development of international river basins, including power sources, river navigation, irrigation, land settlement, and forest resources.
- Basic industries of a regional scale which would operate in consumer markets embracing various countries.
- Other integration activities, such as studies and programs for the joint exploitation of natural resources, the establishment of multi-lateral agencies and enterprises, research and exchange of scientific and technical knowledge, study of the legal and institutional infrastructure of integration, the training of personnel and, in general, the mobilization of manpower. Although the big push toward multi-national projects has only recently started with the creation of the Pre-Investment Fund by the IDB, some truly Latin American Projects have already been recommended, which would help to create the required regional infrastructure. Among these projects are: the Transversal Panamerican Highway of South America (Rio de Janeiro-Paysandu-Colon-Asuncion-La Paz-Lima); the finishing of the Panamerican Highway through the Darien Gap between Panama and Colombia; the international utilization of the waters of the Uruguay River (Salto Grande); and the Marginal Highway (Carretera Marginal) between Colombia-Ecuador-Peru-Bolivia. This last project is already underway and the following table shows this project in detail (see Table 3).

Table 3. Marginal highway^a

Country	Length				Investment		Area of influence				Expected annual value of agricultural production	
	Total		Length to be built		US \$	%	Agriculture ^b		Farmers			
	KM	%	KM	%	Million		Hectars (1000)	%	Number (1000)	%	US \$ Million	%
Colombia	1320	24	920	24	113	22	2430	34	424	28	30	36
Ecuador	860	15	670	18	81	17	1360	19	371	24	13	16
Peru	2460	44	1565	41	228	46	2050	28	501	32	29	35
Bolivia	950	17	655	17	72	14	1350	19	249	16	11	13
Total	5590	100	3810	100	494	100	7190	100	1545	100	83	100

^aSource: (68).

^bIncludes areas for crops, pastures and other uses.

Finally, the IDB has actively supported and provided financial and technical assistance for integrated development of border areas between neighboring countries. Two programs of this kind were elaborated under the auspices of the Bank. The IDB was the technical advisor in both cases. The Act of San Cristobal signed in August 1963 (21) defines the integration of the border areas of Colombia and Venezuela,¹ and the Act of Rumichaca signed in March 1966 (2) sets out the Colombian-Ecuadorian border program.²

Although it is not strictly related to investment, the program for the creation of Asociación Latinoamericana de Armadores - ALAMAR (Latin American Commercial Fleet) will be commented upon in this part. The "Line of the Americas" will be integrated by the national fleets of the LAFTA members and in the future any other Latin American country can join the fleet. This organization will permit a foreign exchange saving of about one million dollars, now being paid in freight to foreign companies (1).

4. Monetary and financial issues

Economic integration can hardly progress without some measure of monetary and financial cooperation among the participating countries. In the case of LAFTA, the main problem lies in the fact that the Treaty of

¹The total investment for the program will amount to 130 million dollars, comprising the following projects: 14 road plans (25 million dollars), 18 irrigation, river basin and reforestation projects, and one electric power plant of 48 thousand Kw. (half a million dollars).

²This program will require an investment of 92.5 million dollars (including additional projects). It will be comprised of common and individual projects of electrification, roads, railroads, port facilities, airports, telecommunications, sewage, health, agriculture, and education. The program will last five years with individual investments of 16 and 20 million dollars for Colombia and Ecuador respectively (22).

Montevideo does not offer any guideline in the field of monetary co-operation. On the other hand, given the present foreign exchange position in Latin America: different exchange rate policies, differential rates of inflation among the country members, and lack of full convertibility between the LAFTA member's currencies; the conduct of intra-regional payments on the basis of complete settlement in gold or dollars would obstruct the whole purpose of a common market by making liberalization of trade much more difficult than it need be. The solution of the payments problem of the region has aroused the concern of the international institutions and of specialists in this field.

Among the number of proposals suggested, the following are the most relevant ones:

- ECLA's Secretariat has supported the idea of special arrangements for intra-regional payments involving a system of reciprocal credits. ECLA made some proposals in 1949, and again in 1959 and in 1960 various documents were published. These contained two basic ideas:

The first was called the "a priori system". It stated that the central banks should designate a commercial bank or other financial institution to operate the system. This institution would collect the payments after each agreed designated period. After clearing, the final balances would be kept like an automatic credit conceded by the countries with surplus to the countries with negative balances.

The second system, called "a posteriori", would utilize payments in dollars, and the clearing should be at the end of each designated period. The mechanism of automatic credits would be like the first system, but only up to the limits of individual country's margins of

credit.

Two other solutions have also been presented:

- Professor Robert Triffin advocates a gradual evolution starting with a Chamber of Compensation like the one operating now in Central America. In this way the immediate clearing of balances would be limited. Triffin believes that the success of such operation would depend on the opening of mutual credits and the reduction of the requirement for convertible currencies.
- Raymond F. Mikesell's solution is in favor of the creation of credit relations and liquidity. He suggests that the banks dealing with LAFTA trade should establish a system of account in dollars, convertible into a LAFTA currency. These accounts would have to be endorsed 100% by convertible deposits in a USA Bank, a financial LAFTA institution, or a Central bank to be designated (64).

All these proposals are starting points for the solution of the problem, and a solution was not reached until September 1965. A series of steps preceded the creation of the so-called "Multilateral Mechanism of Compensation and Reciprocal Credit" (MMCRC). After the 1963 meeting of Central Banks Technicians in Rio de Janeiro, the Fourth LAFTA Ordinary Conference held in Bogota on December 1964 created a Council of Monetary and Financial Policy. Finally, at a meeting of the LAFTA Central Banks, held in Mexico in September 1965, the MMCRC was established. It did not enter into force until April 1966, (Jamaica) (15) and further steps must still be taken towards the creation of a Chamber of Compensation.

The MMCRC was created in view of the following stated considerations:

- Reciprocal credit in American dollars.
- Interest-free accounts.
- Bi-monthly clearing of accounts.
- Immediate payment by cable transference of any overdue debts in the ordinary credit.
- Additional negotiations.
- Guarantee of convertibility.
- Periodic meetings for the creation of a Chamber of Compensation and Warranty Fund.

The meeting creating the MMCRC, nominated the "Banco Central de Reserva del Peru" (Central Reserve Bank of Peru) as the agent, and the New York Federal Reserve Bank as the common correspondent.

It was agreed that any other Central Bank of the non-member countries could join the agreement. As soon as the system was created the Central Banks began signing agreements among themselves. The following Table 4 shows how the system is working.

The financial cooperation that the IDB gave to the intra-regional trade promotion must also be considered here. A small revolving fund of 30 million dollars was established in 1964 to finance intra-regional exports of capital goods, to provide Latin American manufacturers and exporters with the necessary credit to compete with suppliers from other parts of the world. This fund facilitates medium-term financing (from six months to five years) for the export of a large variety of capital goods produced or manufactured, in any country, from raw materials or components of national or regional origin.

Table 4. Multilateral reciprocal credit^a (million dollars)

Country	Argen- tina	Brazil	Cent. America	Chile	Colom- bia	Ecu- dor	Mexico	Para- guay	Peru	Uruguay	Venezuela
Argentina	-	-	-	5.0	1.0	-	1.5	0.9	5.0	-	-
Brazil	-	-	-	-	-	-	-	-	-	-	-
Central Americab	-	-	-	-	-	-	5.0	-	-	-	-
Chile	5.0	-	-	0.5	0.5	-	2.2	0.2	4.5	-	-
Colombia	1.0	-	-	-	-	0.8	0.5	-	0.7	-	-
Ecuador	-	-	-	2.2	0.8	-	-	-	0.5	-	-
Mexico	1.5	-	5.0	0.2	0.5	-	-	0.2	1.0	-	1.5
Paraguay	0.9	-	-	4.5	-	-	0.2	-	0.2	-	-
Peru	5.0	-	-	-	0.7	0.5	1.0	0.2	-	-	-
Uruguay	-	-	-	-	-	-	-	-	-	-	-
Venezuela ^b	-	-	-	-	-	-	1.5	-	-	-	-

^aSource: (14).

^bCentral America and Venezuela only have bilateral agreements with Mexico.

5. Intra-LAFTA trade

Trade among members of a custom union is one of the main aspects of an economic integration process. Consistent with the dual nature of such process, the analysis of trade in the area should be made in dynamic as well as in static terms.

The economic case for regional integration among developing countries depends to a great extent upon the dynamic effects. In this sense the following part deals with LAFTA: the evolution of its intra-zonal trade and its share in the total foreign trade both of the region as a whole and of each member country.

In order to consider the variations in intra-LAFTA trade, it should be made clear that tariffs are only one of a number of barriers affecting trade. Changes in other types of barriers such as quotas and licensing procedures, changes in exchange rates and alternative taxing schemes are also economic variables which will affect a country's imports and exports within LAFTA. There is also a host of noneconomic forces which can affect trade among members (political factors, tradition and habits, etc.).

Nevertheless, the entry into force of the Treaty of Montevideo has been followed by a relatively rapid expansion of intra-zonal trade. In order to analyze this important achievement we may divide the period under consideration (1950-1965) into two parts: The pre-LAFTA period (1950-1961) and the post-LAFTA period (1961-1965). Likewise, the analysis will cover the appraisal of the LAFTA area as a whole, and the trade evolution of each member country.

In the period 1950-61 LAFTA had not been organized yet. Intra-LAFTA

trade did not follow a definite trend due to the irregular changes in trade that occurred in this period. In the early 1950's LAFTA enjoyed a very favorable trade situation that ended with a peak reached in 1955. In this year the value of intra-regional total trade¹ amounted to 1,082 million dollars (Table 5), or 11% of the region's total trade (Table 6). The level of intra-LAFTA trade in the years preceding 1955 was partly related to the existence of a network of bilateral trade and payments agreements. Nevertheless, the dismantling of these agreements, after 1958, does not explain the fall in intra-LAFTA trade between 1955 and 1959, which was due to both supply difficulties and to the replacement of commercial imports of foodstuffs by deliveries under PL480 (USA). The increases and decreases in intra-regional trade were reflected both in the growth and in percentage of increase. According to Table 8 intra-regional trade decreased 8% and grew at a negative rate of 0.9% respectively. In terms of intra-regional exports and imports, the latter shared a higher percentage than exports (Table 6) and almost during the whole 1950-61 period there was a net import surplus (Table 5).

The post-LAFTA period presents a more optimistic situation. Intra-regional trade was rising at an annual cumulative growth rate of 21% (see Table 8), and the share of intra-LAFTA trade was increasing year by year: exports increased from 6.1% in 1961 to 9.8% in 1965, imports rose from 6.0% (1961) to 12.8% (1965), and total trade from 6.9% to 11.3% for the same

¹Total intra-LAFTA trade = intra-LAFTA exports + intra-LAFTA imports which when valued FOB or CIF in both cases must obviously be equal.

Table 5. LAFTA trade^a (million dollars; exports FOB, imports CIF)

Year	Intra-regional			Extra-regional			Global		
	Exports	Imports	Total	Exports	Imports	Total	Exports	Imports	Total
1950	363	352	715	3921	3325	7246	4284	3677	7961
1951	476	477	953	4520	5244	9764	4996	5721	10717
1952	359	449	818	3894	4961	8855	4253	5410	9663
1953	509	525	1034	4362	3867	8229	4871	4392	9263
1954	495	539	1034	4465	4568	9033	4960	5107	10067
1955	508	574	1082	4281	4512	8793	4789	5086	9875
1956	358	408	766	4715	4770	9485	5073	5178	10251
1957	396	441	837	4285	5279	9564	4681	5720	10401
1958	374	403	777	4035	4820	8853	4407	5223	9630
1959	324	355	679	4272	4455	8727	4596	4810	9406
1960	340	375	715	4393	5313	9107	4733	5688	10422
1961	299	360	659	4610	5652	10264	4909	6012	10921
1962	354	420	774	4821	5511	10332	5175	5931	11106
1963	425	525	950	5039	5220	10260	5465	5746	11210
1964	558	646	1203	5323	5335	10658	5881	5981	11862
1965	635	769	1404	5824	5240	11064	6459	6009	12468

^aSource: (6 and 7).

Table 6. Share of intra-LAFTA trade in total trade^a

Year	Percentage			Value index (1961= 100)		
	Exports	Imports	Total	Exports	Imports	Total
1950	8.5	9.6	9.0	121.4	97.8	108.5
1951	9.5	8.3	8.9	159.2	132.5	144.6
1952	8.4	8.3	8.4	120.1	124.7	122.6
1953	10.4	12.0	11.3	170.2	145.8	156.9
1954	10.0	10.5	10.3	165.5	149.7	156.9
1955	10.6	11.3	11.0	169.9	159.4	165.2
1956	7.1	7.9	7.6	119.7	113.3	116.2
1957	8.5	7.7	8.1	132.4	122.5	127.0
1958	8.5	7.7	8.2	125.1	111.9	117.9
1959	7.0	7.4	7.2	108.4	98.6	103.0
1960	7.2	6.6	6.9	113.7	104.2	108.5
1961	6.1	6.0	6.0	100.0	100.0	100.0
1962	6.8	7.1	7.0	118.4	116.7	117.4
1963	7.8	9.1	8.5	142.1	145.8	144.2
1964	9.5	10.8	10.1	186.9	179.4	182.5
1965	9.8	12.8	11.3	212.4	213.6	213.0

^aSource: Table 5.

Table 7. Country LAFTA trade^a (million dollars; exports FOB, imports CIF)

Country	Trade	1950	1955	1960	1961	1962	1963	1964	1965
Argentina	Exports	136.1	190.1	162.5	100.0	141.4	185.0	218.4	231.1
	Imports	103.2	192.2	106.6	126.0	103.2	101.6	170.8	255.7
	Balance	32.9	-2.1	55.9	-26.0	38.2	83.4	47.6	-24.6
Brazil	Exports	10.7	145.2	86.4	95.2	75.8	76.0	132.8	197.4
	Imports	134.9	194.7	108.3	45.2	128.6	163.9	168.0	190.4
	Balance	-26.2	-49.5	-21.9	50.0	-52.8	-87.9	-35.2	7.0
Chile	Exports	38.5	58.0	30.2	34.8	39.4	49.3	54.5	53.2
	Imports	45.0	83.2	81.9	94.5	80.5	120.0	128.9	121.6
	Balance	-6.5	-25.2	-51.7	-59.7	-41.1	-70.7	-74.4	-68.4
Colombia	Exports	1.1	3.0	4.8	6.1	7.3	6.1	10.9	16.7
	Imports	17.1	12.3	6.3	10.2	12.5	21.4	33.1	38.4
	Balance	-16.0	-9.3	-1.5	-4.1	-5.2	-15.3	-22.2	-21.7
Ecuador	Exports	11.5	8.6	4.7	7.5	6.1	8.0	13.3	13.1
	Imports	1.2	6.3	3.3	4.1	3.9	5.2	8.0	8.9
	Balance	10.3	2.3	1.4	3.4	2.2	2.8	5.3	4.2
Mexico	Exports	5.9	5.0	5.7	7.9	16.7	25.9	34.0	36.3
	Imports	1.3	1.5	3.6	4.1	6.1	10.8	17.3	29.6
	Balance	4.6	3.5	2.1	3.8	10.6	15.1	16.7	6.7
Paraguay	Exports	5.1	17.0	8.9	9.9	10.9	10.7	14.8	17.5
	Imports	1.2	13.2	8.6	9.8	6.0	8.4	11.6	11.4
	Balance	3.9	3.8	0.3	0.1	4.9	2.3	3.2	6.1
Peru	Exports	51.3	49.9	33.4	31.5	48.8	49.1	63.8	54.0
	Imports	14.6	23.2	27.5	31.8	45.2	62.0	58.9	80.9
	Balance	36.7	26.7	5.9	-0.3	3.6	-12.9	4.6	-26.9
Uruguay	Exports	6.4	31.4	3.4	5.8	8.0	15.0	15.0	15.6
	Imports	33.5	47.0	28.9	34.5	34.0	31.8	49.3	32.1
	Balance	-27.1	-15.6	-25.5	-28.7	-26.7	-16.8	-34.3	-16.5

^aSource: (7).

Table 8. LAFTA trade development^a

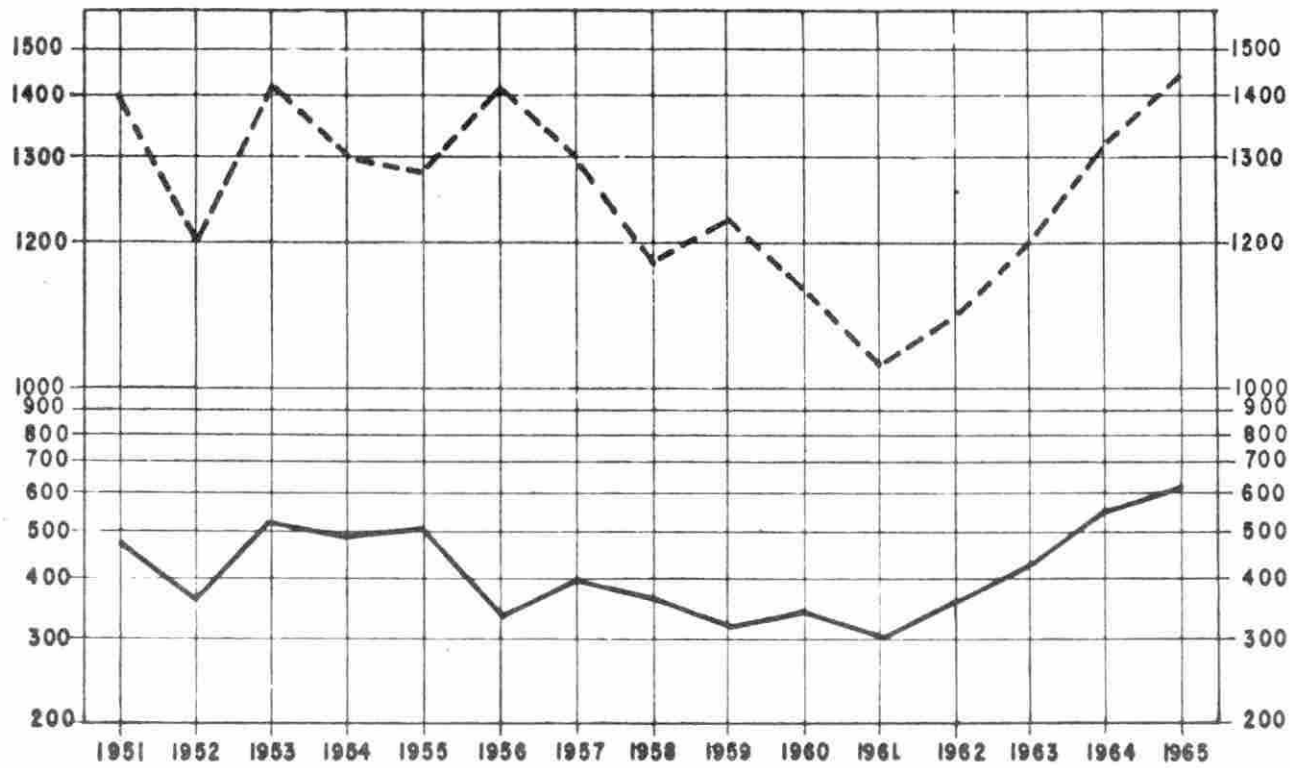
Country	Percentage of increase				Annual cumulative growth rate			
	1950-1961		1961-1965		1950-1961		1961-1965	
	Exports	Imports	Exports	Imports	Exports	Imports	Exports	Imports
Argentina	-27	22	131	103	-2.7	1.8	23.5	19.4
Brazil	790	-13 ^b	107	61 ^b	22.0	-1.2	20.0	12.6
Chile	-10	110	53	29	-0.9	7.0	11.2	6.5
Colombia	455	-40	174	276	16.9	4.6	29.0	39.5
Ecuador	-35	242	75	17	-4.0	11.8	15.0	21.5
Mexico	34	215	359	622	2.7	11.0	47.0	63.9
Paraguay	94	717	77	16	6.2	21.0	15.3	3.8
Peru	-39	118	71	154	-4.3	7.3	14.4	26.6
Uruguay	-9	3	169	-7	-0.9	0.3	28.0	-1.8
LAFTA	-8		113		-0.9		21	

^aTables 5 and 7.

^bThe value for 1961 was too small and the value used was the average for 1960-1962.

period (see Table 6). This recovery in intra-LAFTA trade can also be shown by means of a value index. Taking 1961 as the base year, intra-regional trade amounted to 1,404 million dollars in 1965 (see Table 5), representing an increase of 112% for exports, and 113% for total trade and imports (see Table 6).

Intra-LAFTA trade was closely related to two factors: changes in the exportable supplies and the price level of a very few traditional commodities, which loom large in intra-LAFTA trade, and to the overall level of export earnings of Argentina and Brazil, which in turn determine, with some time lag, the capacity to import of the two countries offering the largest markets for intra-LAFTA trade. In Graph 1, a comparison between total intra-LAFTA exports and the combined value of total exports of wheat and meat from Argentina, and coffee from Brazil for 1951-65, shows a high correlation between them. This correlation is more remarkable between 1951-63. In 1964, and even more in 1965, intra-zonal trade increased much more quickly than the value of the three traditional export commodities. This development reflects, among other things, the fact that intra-LAFTA trade tended to include a growing proportion of non-traditional items (particularly in Brazilian exports) and also that the share of intra-LAFTA imports (see Table 9) in the total increased not only in Argentina (from 10.4% in 1963 to 21.3% in 1965) but also in Brazil (11.0% and 17.4% respectively), where total imports decreased sharply. As a result, not only did the absolute level of intra-regional trade surpass in 1964 the previous peaks registered in 1953-55, (see Table 5) but in 1965 the share of intra-zonal trade in total LAFTA trade reached



----- Total Exports of Wheat and Meat (Argentina) and of Coffee (Brazil)
 _____ Intra-LAFTA Exports

Figure 1. Traditional Exports of Argentina and Brazil and Intra-LAFTA Trade
 (in million dollars)

Source: (33)

Table 9. Country-LAFTA trade as a percentage of total country trade^a

Country	Trade	1960	1961	1962	1963	1964	1965
Argentina	Exports	15.1	10.4	11.6	13.5	15.5	15.5
	Imports	8.5	8.6	7.6	10.4	15.8	21.3
	Total	11.6	9.3	9.5	12.2	15.6	18.1
Brazil	Exports	6.8	6.8	6.2	5.4	9.3	12.4
	Imports	7.4	3.1	8.7	11.0	13.3	17.4
	Total	7.1	4.9	7.6	8.3	11.2	14.4
Chile	Exports	6.2	6.8	7.3	9.1	8.7	7.7
	Imports	16.4	16.0	15.8	18.8	21.2	20.1
	Total	11.3	11.8	11.4	14.4	14.9	13.5
Colombia	Exports	1.0	1.4	1.6	1.3	2.3	3.1
	Imports	1.2	1.8	2.3	4.2	5.6	8.5
	Total	1.1	1.7	2.0	2.9	4.1	5.5
Ecuador	Exports	4.5	7.9	5.2	6.2	10.0	11.2
	Imports	2.8	4.1	4.0	4.0	5.8	5.4
	Total	3.7	5.9	4.6	5.1	7.8	7.8
Mexico	Exports	0.8	1.0	1.8	3.1	3.7	3.3
	Imports	0.3	0.4	0.5	0.8	1.2	1.9
	Total	0.5	0.6	1.1	1.8	2.1	2.5
Paraguay	Exports	33.0	32.2	32.5	26.5	29.8	30.6
	Imports	22.6	24.4	15.1	25.8	29.0	22.0
	Total	26.9	27.8	23.1	26.2	29.5	26.5
Peru	Exports	7.8	6.3	9.0	9.1	9.6	8.1
	Imports	7.3	6.8	8.4	11.1	10.1	11.1
	Total	7.5	6.5	8.7	10.1	10.1	9.6
Uruguay	Exports	2.6	3.3	5.2	9.1	8.4	8.1
	Imports	11.8	16.5	14.7	17.9	25.4	21.3
	Total	8.8	10.5	10.9	13.6	17.2	13.9
LAFTA	Exports	7.2	6.1	6.8	7.8	9.5	9.8
	Imports	6.6	6.0	7.1	9.1	10.8	12.8
	Total	6.9	6.0	7.0	8.4	10.1	11.3

^aSource: (7).

11.3% equal to the previous peak of 1953 (see Table 6).

Since LAFTA's entry into force (1962), intra-zonal trade for some member countries became very important. This is the case of Paraguay in which intra-LAFTA trade represented more than 25% of its global trade¹ during the 1961-65 period (see Table 9). Likewise, Paraguay together with Ecuador and Mexico are the only LAFTA members that have shown an export surplus during the period under analysis (see Table 7). The main trading countries in the zone are Chile, as an importer, and Brazil and Argentina as importers and exporters (see Table 7 and Table 10). Perhaps Ecuador is the member that shows the lowest participation in the LAFTA trading system (see Table 10). Its trade with the region doubled in value from 10 to 20 million dollars between 1962-65 (see Table 7). The case of Mexico is a relevant one. This country started significant trading with the area only after LAFTA was organized. Although intra-zonal trade represents a very small proportion of its global trade, (see Table 9) Mexican exports to LAFTA and imports from the area increased by approximately 20 million dollars in the 1962-65 period (see Table 7). Chile appears as the principal buyer of Mexican products, and fishmeal from Peru is accounted as the main import product from the region. Brazil and Argentina also maintain an important trade with Mexico in both directions, imports and exports (see Tables 50 to 56 in the Appendix).

Colombia presents a similar case as Mexico. Intra-LAFTA trade doubled its share of global trade from 2% in 1962 to 5.5% in 1965 (see Table 9). As a market supplier, LAFTA accounts for around 20% of total Chilean

¹Global trade = intra-regional trade + extra-regional trade.

(1963-65), and Uruguayan (1963-65) imports (see Table 9), representing approximately 120 and 30 million dollars respectively (see Table 7). On the other hand, around 15% of total Argentinean exports and Brazilian imports were shared by LAFTA (see Table 9). These two countries supplied more than 60% of total LAFTA exports and imports in the 1962-65 period (see Table 10).

In the case of Peru, intra-zonal trade represented around 10% of total Peruvian foreign trade: this is roughly a constant share since 1963 (see Table 9). A substantial amount of intra-regional imports came from Argentina, and most of Peruvian intra-LAFTA exports went to Chile (see Tables 36 and 42).

Perhaps a preliminary evaluation could be made through the dynamic effects of the changes in intra-zonal trade that have been analyzed above.

In an oversimplified analysis it can be inferred that benefits from trade liberalization have been uneven. Argentina, Brazil and Mexico, because they already possess substantial industry, stand to reap the greatest benefits from the creation of a free trade area. Argentina and Mexico are currently running sizable export surpluses (see Table 7), while Brazil shows a deficit partly because of the high volume of its wheat imports, mainly from Argentina. Traditionally, the so-called "Southern Countries" (Argentina, Brazil and Chile) have represented more than 70% of total LAFTA trade; of this Argentina accounted for about 30%, Brazil 25%, and Chile 15%. The other six member countries have shared the remaining 30% (see Table 10). Ecuador and Paraguay maintain favorable trade balances primarily because they receive special tariff concessions from other LAFTA members. The other

nations display consistent deficits in their balance of trade (see Table 7).

In static terms the theory of economic integration distinguishes between "trade diversion" and "trade creation" when analyzing the effects of tariff reductions among a given bloc of countries. Trade diversion, or the shifting of trade from countries outside the bloc to countries within the bloc, is generally not considered as adding to welfare, but any effects which result in the transfer of resources from high-cost to low-cost activities would increase both output and trade and thus raise welfare. This distinction is useful analytically but it cannot be made sharply when applied to cases such as LAFTA. First of all, there is the problem of measurement and of adequately drawing lines between the two concepts; then there is the more important conceptual question of weighing short-run versus long-run consequences. It is most likely that the establishment of a free trade area will primarily have diversionary effects on trade in the short-run, but it is not at all clear that these may not be welfare-producing in the long-run (11). The difficulty in measuring trade diversion and trade creation effects in LAFTA lies in the fact that the increase in the trade of some products has been a rise that perhaps would have taken place even without the integration process. After four years of functioning there is not sufficient available information about LAFTA that would permit a sound evaluation in static terms. The trade-creating effects of the Latin American project would be restricted, however, if the application of liberalization measures to trade in nondurable consumer goods is delayed. Finally the possibilities of trade diversion exist in all these projects, but in countries where integration and economic development are expected to proceed

Table 10. Country-LAFTA trade as percentage of total LAFTA trade^a

Country	Trade	1960	1961	1962	1963	1964	1965
Argentina	Exports	47.8	33.5	39.9	43.5	39.2	36.4
	Imports	28.4	35.1	24.6	19.4	26.4	33.2
	Total	37.6	34.3	31.6	30.2	32.3	34.7
Brazil	Exports	25.4	31.9	21.4	17.9	23.8	31.1
	Imports	28.9	12.5	30.6	31.2	26.0	24.8
	Total	27.2	21.3	26.4	25.2	25.0	27.6
Chile	Exports	8.9	11.7	11.1	11.6	9.8	8.4
	Imports	21.8	26.2	19.2	22.8	20.1	15.8
	Total	15.7	19.6	15.5	17.8	15.2	12.4
Colombia	Exports	1.4	2.0	2.1	1.4	1.9	2.6
	Imports	1.7	2.8	3.0	4.1	5.1	5.0
	Total	1.6	2.5	2.6	2.9	3.7	3.9
Ecuador	Exports	1.4	2.5	1.7	1.9	2.4	2.0
	Imports	0.9	1.1	0.9	1.0	1.2	1.2
	Total	1.1	1.7	1.3	1.4	1.8	1.6
Mexico	Exports	1.7	2.6	4.7	6.1	6.1	5.7
	Imports	1.0	1.2	1.5	2.1	2.7	3.8
	Total	1.3	1.8	2.9	3.9	4.3	4.7
Paraguay	Exports	2.6	3.3	3.1	2.5	2.7	2.8
	Imports	2.3	2.7	1.4	1.6	1.8	1.5
	Total	2.5	3.0	2.2	2.0	2.2	2.1
Peru	Exports	9.8	10.6	13.7	11.6	11.4	8.5
	Imports	7.3	8.8	10.7	11.8	9.1	10.5
	Total	8.5	9.7	12.1	11.7	10.2	9.6
Uruguay	Exports	1.0	1.9	2.3	3.5	2.7	2.5
	Imports	7.7	9.6	8.1	6.0	7.6	4.2
	Total	4.5	6.1	5.4	4.9	5.3	3.4
LAFTA	Exports	7.2	6.1	6.8	7.8	9.5	9.8
	Imports	6.6	6.0	7.1	9.1	10.8	12.8
	Total	6.9	6.0	7.0	8.5	10.1	11.3

^aSource: (4).

pari-passu, this problem can be hardly discussed in a meaningful way under static assumptions.

Although regional groups of developed areas (EFTA and the EEC) are more suitable to the classical theory of economic integration than the economic unions emerging in developing areas, it may be significant at this point to draw a parallel between some of the cases of custom unions undergoing at the present in both areas.

At the time that Western Europe and Latin America were organized into customs unions, they presented two quite different pictures in terms of degree of intra-regional trade. Western Europe had a substantial intra-zonal trade before the EEC was organized and Latin America (LAFTA) showed almost none. Nevertheless, the post-integration growth in the intra-zonal trade in both cases challenge the classical postulates (See II, p. 8). In Table 11 we can see how LAFTA (after the CACM) is the union that shows the most relevant improvements in intra-regional trade. After four years of existence intra-LAFTA trade increased by 113%, as against 67% for the EEC after its four first years (in 1965 the EEC reached 192%). EFTA shows the lowest level of increase, having reached only 50% in its first 4 years (EFTA reached 94% in 1965).

E. Problems and Limitations

LAFTA's six years of experience have demonstrated that any attempt to accelerate economic growth by integrating a number of underdeveloped economies is an extremely difficult task involving political as well as economic issues.

At the present time LAFTA is facing serious difficulties which threaten

Table 11. Intra-regional trade^a in the most relevant cases of economic integration^b

Year	LAFTA		CACM		EFTA		EEC	
	Value	Index	Value	Index	Value	Index	Value	Index
1957	-	-	-	-	-	-	14.12	100.0
1958	-	-	-	-	-	-	14.85	105.1
1959	-	-	-	-	6.11	100.0	16.53	117.1
1960	-	-	33	100.0	7.08	115.8	20.40	144.4
1961	659	100.0	37	119.9	7.73	126.5	23.61	167.2
1962	774	117.4	50	159.9	8.24	134.8	26.98	191.1
1963	950	144.2	72	229.9	9.20	150.5	31.67	224.3
1964	1203	182.5	106	316.6	10.79	176.6	36.45	258.1
1965	1404	213.0	142	430.3	11.86	194.1	41.24	292.1

^aThe base year is the one before the union was organized; LAFTA and CACM values in million dollars, EFTA and EEC values in billion dollars.

^bSource: Table 5, (22, 33, and 62).

to lead to stagnation. Although preoccupation with LAFTA's unsatisfactory progress is not a recent development, it was not officially expressed until the spring of 1963 in a joint declaration issued by the Presidents of Brazil and Chile (75). In this statement they called for a high-level permanent consultative body in order to coordinate and harmonize plans and policies. This initiative coincided with the appearance of a study by

Raúl Prebisch, who was openly critical of LAFTA's achievements. Prebisch declared (75): "It would be a mistake to consider that the instruments established under the Treaty are not intrinsically efficient. They are: but important policy decisions are required before this efficacy can be reflected in concrete achievements capable of withstanding whatever factors could make for stagnation in the near future."

The implementation of integration has not been taking place satisfactorily due to insufficient coordination of the available mechanisms. The LAFTA Secretariat tried to activate the integration process by setting up a special committee in September 1964. Among the committee's duties were the readjustment of the treaty in the parts dealing with the trade liberalization, systematic solution of monetary and financial problems, intra-zonal trade, financing, coordinated investment policy, and others. In the same way, in January 1965 the President of Chile, Eduardo Frei, requested the opinion of Messrs. Prebisch, Mayobre, Herrera and Sanz de Santa Maria¹ on the way in which economic integration was developing in the region. The four economists presented a whole scheme for a Latin American Common Market (19). It was submitted to all the Latin American Presidents. These two incidents indicate the main signs of concern with the problems LAFTA was facing. In the following part we will deal with some specific limitations that have made LAFTA's progress difficult.

¹Raúl Prebisch - General Director of the Latin American Institute for Economic and Social Planning, José Antonio Mayobre - Executive Secretary of the United Nations Economic Commission, Felipe Herrera - President of the Inter-American Development Bank, Carlos Sanz de Santa Maria - Chairman of the Inter-American Committee on the Alliance for Progress (45).

1. Mechanism for tariff reductions

The present crisis in the Latin American Free Trade Association has been attributed by some observers to the cumbersome process whereby annual negotiations are required for bringing about reductions in trade barriers. The EEC and EFTA have achieved major successes with across-the-board methods of tariff reductions, in accordance with a pre-determined and automatic schedule. These are examples to which some observers believe that LAFTA should conform (see page 43).

The introduction of automatic provisions would require drastic changes in the level of import barriers, and in many cases it would be unacceptable to the signatory countries. The import duties in each member country differ very much, and the levels of import duties are so heterogeneous that any attempt to equalize them will be quite complicated (see Table 12).

Some small countries in the area are reluctant to accept automatic reduction in trade duties because they think that market reactions as a consequence of changes in tariff and quota restriction would benefit the big countries as against the smaller ones, and the industrially more advanced as against the industrially less developed. For example, Peru might logically have this fear of countries such as Argentina, Brazil and Mexico. Peru already has trade barriers much lower than those of the other countries. Hence automatic methods can be immediately applied only where there is a presumption that such methods will lead to comparable benefits for all countries.

The negative consequences of the existing trade reductions mechanism will be explained below. The Treaty of Montevideo does not state clearly

Table 12. Average import duties for some Latin-American countries^{a,b} (ad-valorem in percentage)

Groups	Argentina	Brazil	Chile	Colombia	Ecuador	Mexico	Peru	Paraguay
<u>Group I</u> (51 items)								
Primary and Capital Goods	96	134	58	64	35	32	18	69
1. Unprocessed food prod. (13 products)	123	264	46	185	37	65	21	99
2. Raw materials for industry (10 products)	55	106	111	57	52	38	20	63
3. Capital goods (28 products)	98	84	45	18	27	14	16	57
<u>Group II</u> (43 items)								
Semi-processed products and durable consumer goods	139	143	96	48	56	58	25	84
1. Semi-processed products (incl. fuels) except for those for traditional industries (32 products)	95	80	98	28	48	28	23	77
2. Durable consumer goods (11 products)	266	328	90	108	80	147	30	104
<u>Group III</u> (31 items)								
Manufactured non-durable consumer goods	176	260	328	247	117	114	72	77
1. Processed food products (14 products)	194	280	436	359	145	110	41	76
2. Others (incl. semi-processed prod. for traditional industries) (17 products)	163	244	239	154	76	117	98	78
Total average (125 products)	131	168	138	112	62	61	34 ^c	76

^aSource: (44).

^bArithmetic average import duties for third countries in some LAFTA countries in 1960. Data for Uruguay. The weighted average of import duties was increased to 44% in August 1964 and 55% in June 1967.

^cNot available.

what measures the member countries should undertake with those products heavily protected. The countries are only obliged to "liberalize" the existing trade.

The delegates carrying out tariff negotiations are strongly influenced by pressures from within their own countries not to grant concessions on commodities actually being produced in the home market. Such caution is usually justified by the well-known infant industry argument. It has been suggested that all commodities not being produced in any member country in significant quantities should be put immediately into the Common Schedule, and duties and other restrictions on such commodities be removed either immediately or within a few days. Such action should provide a powerful stimulus to both foreign and domestic investment. (The Treaty of Rome operates in this way and the results have been quite successful.)

2. Intra-regional trade

How is the tariff-reduction mechanism affecting intra-regional trade? In order to answer this question, it is necessary to study the operation of the tariff-reduction mechanism. After five rounds of negotiations the type of products being traded have not changed much from the situation prevailing before the Treaty entered into force.

In 1955, almost 40% of intra-regional trade was comprised of Venezuelan petroleum and Argentine wheat. For the rest, the main products were wood, coffee, cocoa, sugar, cotton and minerals. The picture in 1964 was roughly the same as in 1955. Trade expansion was not diversified in the sense that it consisted almost entirely of traditional primary products. In the case of Argentina for example, nearly 90% of exports to LAFTA countries in 1964

consisted of traditional commodities supplied to new markets within LAFTA (54). While much of the activity under the Treaty, therefore, did not do more than safeguard channels of trade already in existence, mutual concessions were beginning to open up certain new trade flows of potential importance. Mexico and Colombia started trading products not exchanged before.

Although the treaty states that by 1973 substantially all intra-LAFTA trade should be liberalized, in practice such a objective appears optimistic. According to Table 13, negotiated LAFTA intra-zonal imports are still composed of traditional commodities that were traded before LAFTA was organized. Food products and live animals account for more than 50%, and within this section cereals (mainly wheat) represent around 30%, and meat and live animals (mainly beef) share approximately 10% (56). On the other hand, industrial and capital goods are traded in a very small proportion. For example, chemical products only share around 4 and machinery and transport equipment account for 3.

The results of the past rounds of negotiation illustrate the above statements. In the first four rounds the number of concessions decreased each year (see Table 1), and with the exception of the fifth round, all of them showed only concessions for traditional products. Given this state of affairs, the tariff reduction process is becoming more difficult. There are whole chapters of products for which negotiations have not even started. This gives rise to the real danger that, as 1973 approaches and internal trade is scheduled to be substantially freed, there may be only token liberalization of trade in the most significant fields. Drastic action

Table 13. Negotiated LAFTA intra-zonal imports^{a,b} (million dollars)

Site sections	1962		1963		1964		1965	
	Value	%	Value	%	Value	%	Value	%
0 Food products and live animal	190.5	59.8	224.9	52.1	295.9	51.6	336.2	49.7
1 Beverages and tobacco	1.4	0.4	1.1	0.3	2.0	0.3	1.5	0.2
2 Crude materials, inedible, except fuels	75.4	23.6	97.5	22.5	151.2	22.9	165.5	24.5
3 Mineral, fuels, lubricants, related materials	-	-	-	-	0.2	-	0.2	-
4 Animal and vegetable oils and fats	2.6	0.8	8.0	1.9	15.9	2.8	16.9	2.5
5 Chemical products	7.3	2.3	18.0	4.2	24.3	4.2	26.2	4.0
6 Manufactured goods classified by materials	34.6	10.8	69.4	16.1	80.6	14.0	98.7	14.6
7 Machinery and transport equipment	3.2	1.0	9.8	2.3	17.2	3.0	23.3	3.4
8 Miscellaneous manufactured articles	4.2	1.3	2.8	0.6	6.6	1.2	7.7	1.1
9 Commodities and transactions N.E.S.	-	-	-	-	-	-	-	-
Total ^c	319.2	100.0	431.5	100.0	573.9	100.0	678.8	100.0

^aData for Ecuador is not included.

^bSource: ALALC, Secretaria Ejecutiva, Servicio de Estadística, Montevideo, Uruguay, and (3).

^cThe difference with the total of Table 2 is due to the different source of information.

would then be required of the member countries - action which may not be politically feasible - in order to fulfill the goals of the Treaty.

Another point of much concern is the trend of the country-LAFTA trade as a percentage of total country trade. In Table 9 we can see the share of each member. The partner countries have not reached substantial levels of participation, although some members like Mexico have started trading effectively with the area. Paraguay is an exception in this matter. The countries' participation ranged from 2.5% (Mexico) to 26.5% (Paraguay) both in 1965, and intra-regional total trade - after the signature of the Treaty - has increased its share in total LAFTA trade as follows: 1.22% (1962-63), 1.26% (1963-64), and 1.16% (1964-65) (see Table 9).

In terms of economic integration theory, intra-LAFTA trade has not achieved any substantial progress. It still shares a small proportion of its global trade. Compared to the CACM, EFTA and the EEC, LAFTA has the lowest intra-zonal trade participation (see Table 14). This is mainly due to the cumbersome system of tariff reduction as well as to financial and transport problems. It has to be understood that this is a static analysis, thus it has a limited application when evaluating economic integration in less developed areas.

3. Principle of reciprocity

This principle is stated in Article 10 of the Treaty, and according to it, each country will negotiate concessions on import restrictions with the expectation that the concessions given and received will result in a more or less equal expansion of each country's exports and imports with other member countries of the area. Unfortunately, the Treaty does not

indicate clearly how the concessions should be based on reciprocity. In practice, its vague statement would induce trade diversion only when the country, switching its trade from an outsider to a partner country receives a compensation (reciprocity) from the partner country in order to compensate its loss in welfare.

Nevertheless, the group of ECLA and USA experts working in this field had made some recommendations before the signature of the Treaty (27):

"For the success of the common market it is important that all the member countries should have the opportunity of expanding their exports at the same time as they take action to reduce their duties, taxes and other restrictions on imports. To this end, member countries which as a result of the facilities granted to them, increase their exports to the common market without a proportionate increase in their imports should accelerate the rate at which they reduce their duties, taxes and other restrictions." In the case of the EEC, although the Treaty of Rome has not provided any special arrangements for reciprocity, the conflict over the role of agriculture is in fact, if not in principle, a conflict over reciprocity.

There are good grounds for believing that uncontrolled free trade among any group of underdeveloped countries would lead to the more advanced countries enriching themselves at the expense of the more backward ones. Nevertheless, no country can be entirely certain when it enters into negotiations with other countries for mutual tariff reductions that the gains it will achieve in terms of additional markets will be exactly equivalent to the concessions it makes. Alternative possibilities to implement this principle would be, on the one hand, that the framework of the customs

union could create incentives for all countries, so that each country would consider the possible gains sufficient to justify the concession it makes, and to make provision for avoiding excessive imbalances in the advantages achieved by any one country or group of countries. On the other hand, the readjustments (in order to create reciprocity) could be made by restoring trade barriers in countries incurring deficits rather than through the granting of additional concessions by countries experiencing surpluses (48).

Table 14. Relevant cases of economic integration intra-regional trade as a percentage of global trade of each case^{a,b}

Year	LAFTA	CACM	EFTA	EEC
1957	-	-	-	29.6
1958	-	-	-	32.0
1959	-	-	16.8	33.5
1960	-	6.9	17.2	34.4
1961	6.0	7.7	17.9	36.6
1962	7.0	9.5	18.2	38.5
1963	8.5	10.7	18.9	40.6
1964	10.1	14.7	19.8	41.7
1965	11.3	17.5	20.4	42.5

^aThe series starts the year before the union was organized.

^bSource: Table 11.

4. Complementarity

The complementary agreements contemplated in the Treaty (Articles 15 to 17) are viewed as a means of facilitating the integration process. The idea was that through them the required coordination of the industrial sector could be achieved. Unfortunately up to now only two agreements have been signed. The first one, signed in July 1962 by Argentina, Brazil, Chile and Uruguay, dealt with data processing machines, certain carefully defined materials, and components required for their production and operation. The second one was signed in February 1964 by Argentina, Brazil, Chile, Mexico and Uruguay, and dealt with valves for radio and television sets as well as their parts and components (27). Although both agreements have already entered into force, they still lack coordination within them. The first agreement provides that the participating governments should not impose prohibition or restrictions with equivalent effect on imports from third countries of components, spare parts, accessories and other materials as well as of complementary units in manufacturing or operating the machines in question.

The above paragraph indicates how restricted the first agreement is in terms of a positive and sustained benefit to the region. Any agreement in order to bring a substantial benefit should ensure a progressive increase in the degree of fabrication within the region, and a reduction in the imported components. On the contrary, the second agreement did not contain any clause designed to prevent the imposition of restrictions on imports of materials, parts, and components from third countries.

The difficulty in getting a program of this sort started reflects the lack of a drive at the governmental level capable of overcoming the

reluctance of LAFTA manufacturers to disturb the traditional rules of the game, and to break out of the vicious circle of low output high costs, and a high degree of national protection and restrictionism. The narrow scope that each agreement covers cannot always ensure the participation of every single LAFTA member which is yet another problem.

Undoubtedly - without a well-settled, real planning impulse in the area - the road to achieve planned complementarity will be a difficult and a long one. On the other hand the industrial development of the LAFTA region is not likely to be furthered by the organization of private regional cartels. The July 1962 agreement was the result of a suggestion by IBM to the governments concerned that, if duties were eliminated between them, they would build plants in Argentina and Brazil and arrange for another USA company to license the manufacture by a Chilean paper producer of the business forms needed for the machines. This was not the purpose intended for the complementary agreements.

Finally, the eligibility of products to be treated by complementary agreements is quite problematic. If the value added to imported components and materials is very small, as in the case of simple assembly operations, inclusion of the product concerned in a complementary agreement may simply provide means for foreign companies to escape heavy duties on finished goods.

5. Most-favored-nation treatment clause

Although Article 18 of the Treaty of Montevideo states that any advantages existing as a result of the trade liberalization program - which are granted to any other country by a contracting party - shall be extended to a similar product originating in, or intended for consignment to, the

territory of other contrasting parties; there are some cases in which such article is in conflict with other provisions of the Treaty.

The complementary agreements, in many cases, involve private agreements between firms in two or more countries. Such agreements would include, say, the right to import specific manufactured commodities which may constitute intermediate products or portions of product lines of an industry, in exchange for the right to export complementary products to private firms in the other country. Planned complementarity agreements of this kind simply do not lend themselves to the application of the most-favored-nation treatment principle.

Perhaps the special status of Ecuador, Paraguay and Bolivia - although their state of economic development is relatively less than the other members - could conflict with the principle of the most-favored-nation, because such provisions authorize a contracting party (less developed) to proceed more slowly with its liberalization program. In other words a kind of discrimination is instituted (48). This could also be considered a violation of the principle of the most-favored-nation. The recognition of countries with insufficient market (Colombia, Chile, Peru, Uruguay and Venezuelas) is another source of conflict with the principle commented upon.

6. Lack of coordination

It is becoming increasingly evident that balanced growth within LAFTA will depend very much on the degree to which domestic monetary, fiscal and economic policies can be successfully coordinated between the different countries.

Trade liberalization alone cannot achieve the objective of the region's full development. A planned coordination of projects among the member countries should be founded and sustained upon sound bases. Multi-national and border complementary projects will have to be given the highest priority in the region's planning (54).

Many authors state that a much more deliberate intergovernmental promotion and stimulation of growth should be implemented. Adequate joint planning arrangements are indispensable if a program along these lines is to be realized.

There has been much talk of planning in Latin America, but very little as yet in the way of action. The studies that have been made by the Secretariat of ECLA are very well known in this respect, and have created a characteristic line and style that has attracted attention all over the world. And while ten years ago the idea of planning in the underdeveloped countries was considered controversial, to say the least, the preparation of an adequate development plan is beginning to be regarded as an indispensable prerequisite to securing economic development. For example, under the Alliance for Progress, participating Latin American Countries were called upon to formulate long-term development programs. In response to this requirement, most Latin American countries prepared national development programs and this was potentially an important step forward on their part. It would be idle to pretend, however, that the adoption of a national development program by a government indicates in and of itself that economic planning has begun or is even about to begin.

Concrete action still lies in the future and many difficulties will have to be overcome - both at the technical and political levels - before one can really say that effective procedures have been devised for joint regional planning in Latin America as a whole.

A balanced and harmonious development of the region as a whole is indispensable if the loyalty of all member countries to LAFTA is to be maintained. An harmonious development can in turn be ensured only through concerted planning efforts based on agreements among the participating countries.

The General LAFTA Secretariat has held a number of meetings with the purpose of coordinating the different industrial sectors. The automobile industry, the textiles sector, the home appliances manufacturers and many other industrialists have gotten together but unfortunately very few practical conclusions were reached.

It is expected that as the integration process gains more and more strength, the need for closer coordination of policies among the member countries will be achieved through the pressure of the future requirements.

IV. EVALUATION OF THE PERUVIAN MEMBERSHIP

A. Peruvian Foreign Trade

In Peru, as in many other underdeveloped economies, foreign trade plays a very important role. Since 1950, Peru has shown one of the highest export growth rates in Latin America mainly due to the expansion of the mining sector and the spectacular development of the fishing sector. Nevertheless, it is important to note that most of this development and expansion was a result of volume increases rather than price rises.

The importance of foreign trade can be seen more clearly by analyzing its participation in the Gross Domestic Product - G.D.P. (in constant 1963 prices). In the period 1950-59 foreign trade represented the following percentages of the G.D.P.: 12.7% for exports and 15.2% for imports, and in 1959-65 these figures increased to 17.5% and 15.3% for exports and imports respectively. Likewise from 1950 to 1959 G.D.P. grew at an annual cumulative rate of 4.5% against 7.4% for exports while from 1959 to 1965 the growth rates were 6.5% and 8.6% respectively (37).

The analysis of the trends and evolution of Peru's 1950-65 exports and imports are usually divided in two periods: 1950-59 and 1959-65. This breakdown is mainly based on the spectacular increase of both exports and imports. Peruvian exports grew at a rate of 5.5% and 13.4% in the 1950-59 and 1959-65 periods respectively (36).

From 1950-59 export volume almost doubled and prices were affected by world events such as the Korean War and the world depression of 1958-59. Nevertheless, the overall picture shows a net increase in the export

value due to the offsetting of the price fluctuations by the volume increase. After 1959 exports have become definitely the propelling sector of the Peruvian economy. This rapid expansion was generated by increments in copper, iron ore and fishmeal exports. Copper exports were 120 thousand tons more in 1960 than the year before. This represented an additional export revenue of 70 million dollars. Iron ore showed a similar picture. Its 1960 volume and value accounted for 60% more than the corresponding figures in 1959. Likewise fishmeal was the leading export product in the decade of the 1960's. This product grew at an annual rate of 31%.

Peruvian exports can be grouped into three main sectors: agriculture, fishing and mining. The three of them comprise almost 98% of the total country exports.

Table 15. Exports composition^a (percentage of participation)

Year	Agriculture	Fishing	Mining	Other	Total
1950	57.1	3.0	37.9	2.1	100.0
1955	47.4	4.7	45.3	2.6	100.0
1960	35.7	12.1	49.4	2.8	100.0
1965	25.8	28.0	45.4	0.8	100.0

^aSource: (36).

As we can see in Table 15 the importance of the Agricultural Sector as a supplier of exports declined from first place in 1950 to third place in 1965. The Mining Sector since 1960 has become the leading sector in the export picture, while the importance of the fishing sector is strikingly shown by its increasing share of total exports, from 3.0% in 1950 to 28.0% in 1965. Peruvian exports have been characterized, among other things, by their diversification. Peru exhibits, within Latin America, one of the most diversified export mixes. This places the country in a position to offset the market fluctuations of certain products. The so-called twelve basic products amounted to almost 95% of total exports (1965). Cotton, fishmeal and copper are the leading products (see Table 16).

Table 16. Participation of basic export products^a (in percentage)

Product	1950	1955	1960	1965
Copper	5.3	10.9	21.9	18.2
Cotton	35.1	25.3	16.3	13.0
Fishmeal	0.1	0.7	9.0	23.4
Sub-total	40.5	36.9	47.8	54.6
Coffee	0.5	3.0	4.3	4.4
Sugar	15.4	13.7	11.0	5.6
Wool	4.1	2.2	1.6	1.3
Fish oil	-	0.3	1.2	3.6
Crude petroleum	3.8	1.9	1.5	0.9
Iron ore	-	3.0	7.6	7.1
Lead	6.3	9.7	5.0	5.7
Silver	4.3	6.0	5.6	5.9
Zinc	5.4	5.1	3.9	5.4
Total	80.3	81.8	89.5	94.5
Other products	19.7	18.2	10.5	5.5
Total exports	100.0	100.0	100.0	100.0

^aSource: (36).

Peruvian imports also were among the fastest growing within Latin America.

Between 1950-59 imports grew at 6.8%. They were fostered, in the early 1950's, by the removal of the exchange controls of previous years, by additional export revenues caused by the Korean conflict, and the foreign capital investment (new copper mines). Nevertheless, in 1954 and 1959 imports partially decreased as a result of the monetary devaluations of 1953 and 1958. On the other hand in the following period, 1959-65, they grew at the fast rate of 14.9% annually. This was partly generated by the increase in food and edible imports as a consequence of the rise in national income; 1964 was the peak year during this period.

In terms of composition the import picture does not show significant changes. According to the SITC sections showed in Table 17 the bulk of Peruvian imports were composed of manufactured and capital goods such as chemicals, manufactured goods classified by materials and machinery, and transport equipment. Together they accounted for nearly 70% of the total imported by the country between 1955-65. On the other hand, food and edible products comprised in the food products and live animals, and beverages and tobacco sections of the SITC classification represented approximately 17% in 1955 and around 16% in 1960-65. Individually, machinery and transport equipment is the section that shows the highest increase in share. From 33.61% they went up to 40.76% in the decade of the 1955-65's.

In geographic terms Peru's diversification is not as great as in products. More than 80% of total trade (exports plus imports) is conducted with big economic regions and countries. Basically the USA, the EEC, EFTA,

Table 17. Participation of the SITC sections in the total imported^a
(in percentage)

SITC sections	1955	1960	1965
0 Food products and live animals	16.15	14.82	15.00
1 Beverages and tobacco	0.64	0.73	0.83
2 Crude materials, inedible, except fuels	2.93	4.02	4.00
3 Mineral, fuels, lubricants, related materials	3.48	4.97	3.19
4 Animal and vegetable oils and fats	0.81	0.72	1.58
5 Chemicals	10.32	11.90	11.28
6 Manufactured goods classified by materials	24.28	20.39	18.50
7 Machinery and transport equipment	33.61	37.42	40.76
8 Miscellaneous and manufactured articles	7.44	5.01	4.83
9 Commodities and transactions N.E.S.	0.34	0.02	0.03
Total	100.00	100.00	100.00

^aSource: Instituto Nacional de Planificación, Departamento de Comercio Exterior, Lima, Peru.

Japan and LAFTA are the import and export markets of the country (see Table 19). Nevertheless, in general terms a market expansion is taking place in both directions, exports and imports, with the consequent benefits for the country. Table 18 shows this instance very clearly.

In country terms, the USA has increased its importance as a market for Peruvian exports. From a share of 26.2% in 1950 it has come to account for approximately one third of total Peruvian exports in more recent years.

Table 18. Concentration coefficients by markets^{a,b}

Year	Exports	Imports
1954	42.5	54.2
1960	43.0	46.9
1964	37.8	44.6

^aSource: (36).

^bGini-Hirschman formula: $C = 100 \sqrt{\sum_i (x_i/x)^2}$, where
 x_i = value of the exports or imports to each market;
 x = total value of exports or imports of the country;
 C = indicates the market diversification for exports and imports.

On the other hand, imports from the same country declined from half of total Peruvian imports in 1950 to around 40% in 1965. Much of this decline was due to the increasing participation of the EEC in the decade of the 1950's (see Table 19).

Japan is becoming a very important trading market for Peru. Prior to 1960 this country shared only 4.8% and 1.7% respectively, of exports and imports value. Nevertheless, the picture in 1965 shows an increasing trend; exports doubled their previous participation and imports reached 7.1% of that total.

Among the regional economic blocs, the EEC is the most important as a market for Peru. In 1950 this bloc only bought 15% of Peruvian products, but in 1965 it purchased one third of total Peruvian exports, doubling its participation. Within this area, West Germany is the most important member accounting in 1965 for approximately 12% of total imports and exports.

In the case of EFTA the prevailing trend in the period under analysis is a decreasing one. Trade with this region in exports and imports terms accounted in 1965 for only one half of the trade enjoyed during the 1950's. The UK, as EFTA's leading member, set the pace for the decreasing trend of the bloc. The UK's share for exports and imports in 1965 was only one third of the 1950 figure.

Finally, we have LAFTA which for the purpose of this study is the most important economic area. Peru's intra-zonal trade shows a divergent picture for exports and imports. While Peruvian products exported to LAFTA accounted for as much as 26.4% of total exports in 1950, a dramatic decrease took place in the following years to 8.1% in 1965. On the other hand, imports from the area have shown an increase from 7.9% in 1950 to 11.1% in 1965 in its share on the total imported.

These trends were mainly due to the following facts: most Peruvian products were still traditional export items; and the concessions granted to the LAFTA members, plus the population increase causing the increasing demand for food imports, generated the upward trend for intra-zonal imports.

B. Analysis of the Membership

1. Institutional framework

Peru started to participate in the integration movement in June 1959. After the amendments introduced to the first draft of the project for a free trade area, Argentina, Bolivia, Brazil, Chile, Paraguay, Peru and Uruguay met in Lima, to insert more changes in the project for a custom

Table 19. Peruvian foreign trade markets^a (percentage of the total value)

Country	Exports				Imports			
	1950	1955	1960	1965	1950	1955	1960	1965
<u>USA</u>	<u>26.2</u>	<u>36.0</u>	<u>36.1</u>	<u>33.6</u>	<u>53.0</u>	<u>50.0</u>	<u>43.9</u>	<u>39.7</u>
<u>EEC</u>	<u>15.0</u>	<u>20.5</u>	<u>30.9</u>	<u>32.1</u>	<u>9.3</u>	<u>18.2</u>	<u>22.4</u>	<u>20.3</u>
W. Germany	2.1	6.9	10.1	12.5	2.7	8.9	11.4	11.7
<u>EFTA</u>	<u>19.7</u>	<u>13.5</u>	<u>9.7</u>	<u>8.0</u>	<u>21.6</u>	<u>15.2</u>	<u>13.3</u>	<u>10.8</u>
U. Kingdom	17.2	10.2	7.8	5.8	16.2	8.9	6.9	5.2
<u>Japan</u>	<u>1.1</u>	<u>4.8</u>	<u>7.6</u>	<u>9.2</u>	<u>0.2</u>	<u>1.7</u>	<u>3.3</u>	<u>7.1</u>
<u>LAFTA</u>	<u>26.4</u>	<u>18.4</u>	<u>7.7</u>	<u>8.1</u>	<u>7.9</u>	<u>7.7</u>	<u>7.3</u>	<u>11.1</u>
Argentina	4.9	1.8	2.2	2.9	3.7	4.7	4.7	6.7
<u>Other</u>	<u>11.6</u>	<u>6.8</u>	<u>8.0</u>	<u>9.0</u>	<u>8.0</u>	<u>7.2</u>	<u>9.8</u>	<u>11.0</u>
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

^aSource: Table 56 in Appendix.

union in Latin America.

In September 1959, a Government Conference took place just before the signature of the Treaty of Montevideo. The main purpose was to clearly define the free trade area. Among the participant countries were the seven named above, plus observers from Mexico and Venezuela, and members of the international institutions such as ECLA, FAO, IMF, OAS and others. Finally, when the Treaty was signed on February 18, 1960 Peru was accounted among the founding members.

Consistent with the rules stated in the Treaty, every year the member countries meet in the so-called Annual Ordinary Conferences. Between 1961-65 six of these were held in the different capital cities of the participant nations. The main purposes of these conferences were to negotiate the concessions to be granted by the member countries and for their subsequent inclusion in the National Schedules. On the other hand, the Conference has to deal with the issues presented by the Executive Secretary of LAFTA about the developments within the Association, and to take appropriate action.

Peru has negotiated bilaterally with most of the LAFTA members, and it has also participated in the first Common Schedule Negotiation held in Bogota in 1964. Nevertheless, Peru has not negotiated in certain conferences with some countries which were maintaining import restrictions. This attitude was more a bargaining strategy rather than a policy norm.

The specialized LAFTA Committees and the entrepreneurs, industrial and businessmen of the region have called a number of meetings in order to exchange ideas about the way that integration should be implemented in

the different specialized fields. Despite the importance of these events, Peru has not been present at many of them. Based on this fact, it is open to question whether the private and public sectors of Peru are giving the required full consideration to the LAFTA compromise (see Table 21).

The Peruvian participation in LAFTA has developed within a legal framework. After the signature of the Treaty of Montevideo, the Peruvian Government issued a supreme decree that was approved by the Congress in order to create the entity that will be in charge of the Peru-LAFTA affairs. The "Comisión Nacional de la ALALC" (LAFTA National Commission)¹ was created on July 14, 1961. It was composed of fourteen members appointed by the Ministry of Foreign Affairs and the Ministry of Finance (Hacienda y Comercio) under the presidency of the Minister of Finance (or his representative). The technical and administrative functions of the Commission were to be exercised by a General Secretariat through an Executive Secretary. All the norms of the entity were dictated by the Ministry of Finance. It was also stated that the Commission will coordinate the information of the Peruvian Permanent Delegation in Montevideo.

In 1965, after four years of functioning, the Peruvian government realized that the Peruvian participation was becoming more complicated. A highly functional institutional mechanism was urgently needed. In this state of affairs, the LAFTA National Commission was reorganized on May 22, 1965, by a supreme decree. The first measure was to incorporate the Commission into the Ministry of Foreign Affairs designating the Minister of

¹Information from the files of the Comisión Nacional de la ALALC.

Table 21. Sectorial LAFTA meetings^a (Number of delegates per member country)

Member	1963	1964	1965
Argentina	84	168	275
Brazil	67	45	134
Chile	53	38	48
Colombia	21	11	33
Ecuador	7	7	1
Mexico	20	73	95
Paraguay	8	4	12
Peru	9	10	11
Uruguay	96	139	102

^aSource: ALALC, Secretaría Ejecutiva, Montevideo, Uruguay

Foreign Affairs as President in place of the Minister of Finance. The first and second vice-presidency were to be exercised by the Director of Economic Affairs of the Chancery and the General Director of Commerce of the Ministry of Finance respectively. The organs created within the Commission are the Permanent Executive Committee with six members, and the Executive Secretaty with an Executive Secretariat. The membership of the Commission was increased to eighteen members (Group A, members of the Central Government; Group B, members of the Independent Public Sub-Sector; and Group C, members of the Private Sector).

The full implementation of Peruvian participation in LAFTA has not been accomplished by the Commission, partly due to the lack of sufficient

financial support and trained personnel. These facts may explain why this entity has been mostly involved in administrative functions, without being able to pursue the required investigation and research. In practice the Commission was not much more than a link between the Peruvian delegation in Montevideo and the Peruvian Government by way of the Ministry of Foreign Affairs.

The Government has recently issued (March 31, 1967) a supreme decree dealing with the formal organization of the foreign trade policy of the country by creating the so-called "Consejo Superior de Comercio Exterior e Integración" (Council of Foreign Trade and Integration). This institution will have two Secretariats: foreign trade and integration. Indications are that both of them will be staffed with competent personnel and provided with the required financial support. Among the functions of this entity, the integration process, export promotion and import substitution requirements are accounted as the most relevant.

The creation of this institution must be considered as the most important and decisive step taken to date by the government in the field of foreign trade. It has to be understood that the new Council represents the first real opportunity to formulate a true "Policy of Foreign Trade and Integration for Peru".

2. Intra-zonal trade regulations

Until 1967 the structure of Peruvian foreign trade regulations was considered to be among the most liberal. The only instrument that regulated Peru's foreign trade was the "Arancel de Aduanas-Importación" (Import

Duty Norms), which imposed the lowest level of import duties (see Table 12) in effect in any LAFTA country. In general terms, imports coming into the country were subject to the following regulations:¹

- Administrative: certification of the commercial invoice and the loading notice by the Peruvian Consulate. Some products also required a sanitary certificate.
- Monetary: the rate of the sol (Peruvian currency) was regulated by the supply and demand, thus it is free. Importers could buy and sell foreign exchange (dollars) without any restriction (the foreign exchange certificates were restored in October 1967).
- Restrictions: trade with the centrally planned countries, except Yugoslavia, Poland and Czechoslovakia (the latter two members of GATT) was prohibited until August 1, 1967, when the prohibition was removed by a Supreme Decree.²
- Duties: all the merchandise, commodities, goods and products imported into the country are subject to the following duties:
 - a) Specific: computed upon the weight or measure of the item correspondent to the schedule of the "Arancel de Aduanas-Importacion" (BTN-Peru Classification).

¹Normas que rigen el Comercio Exterior de los Países de la Zona de Libre Comercio. Corporación Nacional de Comerciantes, pp. 25-27, Lima, Peru. These regulations were in effect until September 1967. The post-devaluation period is not discussed here.

²Decreto Supremo 187-H del 1 de Agosto de 1967. Diario Oficial El Peruano, Lima, Peru, 3 de Agosto de 1967.

- b) Ad-valorem: computed over the CIF import value, which is calculated upon the FOB value plus 20%.
- c) LAFTA Negotiated Duties:¹ the products for which a concession has been granted or received by Peru only pay the ad-valorem duty stated in the Peruvian National Schedule and the National Schedules of the other member countries (see Tables 22 and 23).

- Non-Tariff Restrictions: there were no quotas, licensing or exchange controls in the Peruvian foreign trade. Nevertheless the import of some edible products is subject to the prior permission of the Ministry of Agriculture. This is the case of wheat, meat, livestock and also crude oils for human consumption; in both cases approval will be issued only when there is a "deficit in the domestic supply". Likewise some exports require the permission of the Ministry of Finance (Hacienda y Comercio). The Law of Agrarian Reform (Article 180) prohibits cotton seed exports.

Intra-zonal LAFTA trade is specifically regulated by the Resolution 47 (II) of November 1962. The member countries are required to set up National Schedules according to the following steps:

- Interchange of the list of products that the member countries want to export to the area before June 30 each year.
- Bilateral negotiations between the delegates of the partner countries in order to readjust their offers and petitions. These will be

¹ All imports from LAFTA have to pay, besides the ad-valorem duty, the following charges: i) Law No. 13836, 4% over the freight; ii) Law No. 10811, S/.2.00 per metric ton (two Peruvian soles); iii) Law No. 12799, charges of the consular legalization of the commercial invoice; iv) Port services charges (50).

confirmed in the multilateral negotiation to be held in each annual Ordinary Conference.

- Signature of the Act of Negotiation (it contains all the negotiated products) which is part of the Final Act of the Conference.
- Addition of the new negotiated products to the National Schedule of each member country. This schedule enters into operation the following January.

Peru-LAFTA trade operates within a framework of concessions granted or received, constituting the "negotiated" and "non-negotiated" trade. It is interesting to take into consideration the following points in relation to the Peruvian negotiated trade:

- a) Concessions granted by the member countries: The concessions granted by Peru to the other member countries were judged as equivalent to the ones received from its partners. This equivalence conforms to the rules stated in Articles 10 and 13 of the Treaty of Montevideo concerning reciprocity expected in the intra-zonal trade among the contracting parts.
- b) Number of Concessions: The concessions listed in Table 25 comprise only the ones received directly from the other LAFTA members through bilateral negotiations. Sometimes the products included in the list are old negotiated items with a new tariff reduction. Nevertheless Peru has also received, indirectly, a number of concessions as a result of Article 18 of the Treaty of Montevideo which states the "Most-Favored-Nation Treatment Clause". These concessions are the

ones bilaterally negotiated by the other member countries. Such concessions are not considered in Table 25. Likewise the concessions granted by Peru are listed in Table 24.

- c) Nature of the Concessions Received: They may refer either to an import duty reduction or to a removal of non-tariff restrictions (notably licensing, previous deposits, quotas, administrative restrictions, etc.).
- d) Classification of Products: In the first two annual negotiations (1961-62) the classification used was the BTN with the correspondent correlation to the national classification of each member country. Since 1962 it was decided that all the member countries should adopt the BTN Classification restructured in terms of the LAFTA requirements. This change originated the LAFTABTN (the change in the classification is the cause of the difference between Table 22 and Table 24).
- e) Margins of Preference in the Concessions Received by Peru: The margin of preference is the difference between the level of duties charged to third countries and the duties charged to member countries. All these margins are listed in the Consolidated Schedule of Concessions which is published by the LAFTA Executive Secretariat after each annual negotiation. There are some cases in which these margins of preference have been changed by the rise in the level of import duties of some members. This has been the case of Peru in 1964 and 1967.¹

¹The weighted average of the import duties increased from 36.6% to 43.6%; and from 43.6% to 54.6% in 1964 and 1967, respectively. In "El efecto del Nuevo Arancel sobre las Importaciones, Departamento de Comercio Exterior, Instituto Nacional de Planificación, Lima, Peru. Enero 1965; and the "Efecto de la Actualización del Arancel de Aduanas-Importación. Departamento de Comercio Exterior, Instituto Nacional de Planificación, Lima, Peru, Junio 1967".

In view of this circumstance the sixth Conference of 1966 agreed to convene for an Extraordinary Conference (Resolution 182-VI) in the second semester of 1967 in order to discuss the restitution of the margins of preference lost, through the granting or receiving of an equivalent compensation according to Resolution 53 (II), and the provisions of the Treaty of Montevideo.

In the following Table 22, the Peruvian National Schedules of 1961 to 1965 are listed according to the level of ad-valorem import duties and grouped in terms of the percentage that corresponds to each level of duties. Throughout the five negotiations that gave origin to the respective National Schedules (1961-65), the number of concessions that correspond to each level of ad-valorem duty have maintained a fairly constant participation. Between 72% and 74.5% of the total concessions granted in those negotiations are subject to pay duties that range from 0% to 10%. Likewise nearly 90% of the total concessions granted pay between 0% and 15% of ad-valorem duties. This means that only the remaining 10% of concessions is charged with 16% to 47%. In other words, the highest percentage of intra-zonal LAFTA imports are comprised in the groups paying the lowest ad-valorem duties.

Table 23 shows the ad-valorem import duty of some of the SITC categories taken into account in the analysis. The negotiated products comprised in each of those chapters are subject to relatively low ad-valorem duties. For example, live animals do not pay any duty; meat and preparation pay between 0 to 12%; cereals and preparations pay between 0 and 8%; fruit and vegetables are charged with 0 to 23%; coffee, tea, cocoa and spices and animal oils and fats pay 8-15% and 5-8% respectively. All

Table 22. Peruvian national schedules for 1961-1965, distribution of concessions granted by ad-valorem duties in percentage^a

% ad-v.	1961		1962		1963		1964		1965	
	Number	%	Number	%	Number	%	Number	%	Number	%
0	43	20.4	67	22.0	78	21.5	78	21.0	82	20.4
2	-	-	-	-	-	-	1	0.3	1	0.2
4	-	-	21	6.9	20	5.5	20	5.4	20	5.0
5	-	-	37	12.1	45	12.4	45	12.1	47	11.7
6	1	0.5	5	1.6	5	1.4	5	1.3	10	2.5
7	-	-	-	-	4	1.1	4	1.1	4	1.0
8	66	31.3	47	15.4	55	15.1	54	14.5	53	13.2
10	47	22.3	45	14.8	63	17.4	63	16.9	73	18.1
11	2	1.0	2	0.7	2	0.6	2	0.5	2	0.5
12	13	6.1	23	7.5	29	8.0	30	8.0	30	7.5
13	-	-	3	1.0	1	0.3	1	0.3	1	0.2
14	3	1.4	2	0.7	3	0.8	3	0.8	3	0.8
15	11	5.2	21	6.9	22	6.0	28	7.5	30	7.5
16	2	0.9	7	2.3	5	1.4	5	1.3	5	1.2
17	1	0.5	-	-	-	-	-	-	-	-
18	-	-	1	0.3	3	0.8	4	1.1	4	1.0
20	7	3.3	8	2.6	10	2.7	10	2.7	15	3.7
22	1	0.5	1	0.3	1	0.3	1	0.3	2	0.5
23	4	1.9	4	1.3	4	1.1	4	1.1	1	0.2
25	4	1.9	4	1.3	3	0.8	4	1.1	6	1.5
30	-	-	-	-	1	0.3	1	0.3	4	1.0
35	2	0.9	2	0.7	2	0.6	2	0.5	3	0.8
40	3	1.4	4	1.3	3	0.8	3	0.8	3	0.8
45	-	-	-	-	3	0.8	3	0.8	2	0.5
47	1	0.5	1	0.3	1	0.3	1	0.3	1	0.2
Total ^b	211	100.0	305	100.0	363	100.0	372	100.0	402	100.0

^aSource: (52).

^bTable 22 differs from Table 24 in BTN classification, readjusted according to the LAFTABTN.

Table 23. Ad-valorem duties of selected SITC categories of Peru-LAFTA imports in percentage^a

SITC categories		%
00	Live animals	0
01	Meat and preparations	0-12
04	Cereals and preparation	0-8
05	Fruit and vegetables	0-23
07	Coffee, tea, cocoa and spices	8-15
41	Animal oils and fats	5-8
53	Dyeing, tanning and coloring materials	0-2

^aSource: (52).

these chapters comprise only edible products which constitute the bulk of imports from LAFTA. Finally category 53, which includes dyeing, tanning and coloring materials, only pays 0-2%.

In light of its tradition as a lower duty member, Peru has been very reluctant to grant a large number of concessions in the past round negotiations (see Table 24). Although in the first annual negotiation (1961) the concessions granted by Peru represented 7% of the total granted by all the members; in the following ones a constant participation of 4.3% prevailed up to the 1965 negotiation.

Peru has received, as pointed out before, a number of concessions in a direct way through the bilateral negotiations with the other LAFTA members and through the "Most-Favored-Nation-Treatment Clause". Table 25 includes only the concessions received through the former mechanism. In

Table 24. Concessions granted by Peru^a

Year	Annual	Cumulative	Percentage of total number of LAFTA concessions
1961	227	227	7.0
1962	72	299	3.9
1963	56	355	4.3
1964	9	364	4.3
1965	28	392	4.3

^aSource: Table 1.

this table it can be appreciated that the number of concessions granted decreased since the 1961 round of negotiations.

Eleven out of the twelve traditional export products to LAFTA have been granted a certain reduction in import duties by the members of the zone. Nevertheless, some countries still require a previous license for certain imports. This is the case of some types of cotton, wool and fish oils imported by Colombia and the latter two products when they are imported by Mexico (9).

3. Negotiated and non-negotiated trade

Peruvian intra-zonal trade operates in two forms: Negotiated and non-negotiated trade. The former comprises all the items over which a concession has been granted by Peru, or received from the other LAFTA members; the latter involves those exports and imports traded through the normal tariff mechanisms applied to non-member countries. In other words, these are subject to import duties.

Table 25. Concessions received by Peru^a

Country	1961		1962		1963		1964		1965	
	Number	%	Number	%	Number	%	Number	%	Number	%
Argentina	16	12.1	2	3.0	42	39.6	11	42.3	35	63.6
Brazil	35	26.5	10 ^b	14.9	4	3.8	5	19.2	6	10.9
Chile	26	19.7	6	8.9	-	-	-	-	9	16.4
Colombia	-	-	33	49.3	23	21.7	2	7.7	-	-
Ecuador	-	-	-	-	14	13.2	3	11.6	-	-
Mexico	12	9.1	12	17.9	23	21.7	-	-	3	5.5
Paraguay	16	12.1	-	-	-	-	5	19.2	2	3.6
Uruguay	27	20.5	4	6.0	-	-	-	-	-	-
Total	132	100.0	67	100.0	106	100.0	26	100.0	55	100.0

^aSource: (51).

^bBrazil withdrew two products (28.27.0.01 and 28.27.0.02 of the LAFTABTN classification) over which it granted a concession in the first negotiation.

As a consequence of the entry into operation of the LAFTA concessions in 1962 intra-zonal exports were mainly composed of negotiated products. They followed an upward trend over the period 1962-64. The drop in 1965 of approximately 10 million dollars was due to the decrease in the sugar exports of that year. According to Table 26, negotiated exports amounted to 38.5 million dollars in 1962, sharing 79% of the total exported to the area; while in 1964 its value went up to 57.7 million dollars, an increase of 10% in its share. On the other hand, non-negotiated exports continuously decreased in the 1962-65 period. This trend was generated by the increasing proportion of negotiated items.

The bulk of negotiated exports was composed of cotton, sugar and fishmeal. The three showed increasing shares in the total, 64.2% and 73.1% in 1962 and 1965, respectively. This was caused by the rise in fishmeal and cotton exports. The former has shown regular yearly increases throughout the post-LAFTA period, accounting for approximately 2.9 million dollars more in 1965. Likewise cotton exports increased its value by approximately 10 million dollars between 1963 and 1965 (see Table 27).

It is important also to go through this type of export in terms of grouping negotiated products in mining, fish and agriculture. The first two groups followed just the opposite trend in their participation in the total. Mining products such as zinc, iron ore, lead, copper and silver, have shown a drop in their share. From 28.8% in 1962, they accounted for only 12.1% in 1965. On the other hand fish products comprising fishmeal and fish oil practically doubled their participation during the period under analysis (see Table 27). The concessions granted for these products partly generated the export expansion. In the first round negotiation of 1961, Colombia and

Table 26. Peru-LAFTA negotiated and non-negotiated trade^a (thousand dollars)

Year	Exports					Imports				
	Negotiated	%	Non-negotiated	%	Total	Negotiated	%	Non-negotiated	%	Total
1962	38,521	79.0	10,255	21.0	48,776	32,921	72.9	12,266	27.1	45,187
1963	39,136	79.7	9,990	20.3	49,126	54,462	87.8	7,526	12.1	61,988
1964	57,718	89.4	6,819	10.6	64,537	48,809	82.9	10,052	17.1	58,861
1965	47,491	88.4	6,576	11.6	54,067	63,174	78.1	17,749	21.9	80,923

^aSource: (49).

Table 27. Principal negotiated exports products^a (thousand dollars)

LAFTABTN	Products	1962		1963		1964		1965	
		Value	%	Value	%	Value	%	Value	%
55.01.0.01	Uncombed and uncarded cotton	22659	58.8	16542	42.3	21314	36.9	26190	55.2
17.01.1.03	Raw standard sugar with 85% to 90% of sacharose	-	-	9358	23.9	17251	29.9	3630	7.6
79.01.1.01	Unrefined zinc and its unrefined alloys in lingots	3543	9.2	3150	8.0	6500	11.2	4739	10.0
23.01.1.02	Non-edible marine animals and fish meals	2094	5.4	2725	7.0	4236	7.3	4906	10.3
26.01.1.06	Iron ore	2100	5.5	784	2.0	1131	1.9	-	-
74.01.3.01	Electrolitically refined copper	4396	11.4	3281	8.4	894	1.5	76	0.2
78.01.1.11	Refined lead in bars	776	2.0	1336	3.4	846	1.5	384	0.8
71.05.1.01	Unrefined silver	268	0.7	461	1.2	1282	2.2	510	1.1
15.04.2.91	Other raw marine animals and fish oils	-	-	808	2.1	1425	2.7	7	-
	Other	2685	7.0	691	1.7	2839	4.9	7049	14.8
	Total	38521	100.0	39136	100.0	57718	100.0	47491	100.0

^aSource: Ministerio de Fomento y Obras Públicas, Dirección de Industrias, Departamento de ALALC, Lima, Peru.

Mexico granted a concession over both of them and Brazil and Uruguay did the same with fishmeal (51). Both could be considered examples of trade creation. Agriculture products (cotton and sugar) shared the highest percentage of increase. Their value rose from 22.6 to 38.5 million dollars between 1962 and 1964, although in 1965 the drop of 14 million dollars in sugar exports caused a decrease of nearly 8 million in the total of negotiated exports in that year (see Table 27). Cotton has had a concession since the first negotiations (1961 and 1962). Most of the member countries granted it (51). In Table 27 the item "other" comprises all the products not included in the sample analyzed involving also those which are non-traditional exports. The entry for "other" has been increasing its absolute and relative value in the 1963-65 years. It shows an increment of approximately 6.3 million dollars, sharing 14.8% in 1965. In other words this increment implies that negotiated exports are expanding towards the inclusion of a higher proportion of new negotiated items. Nevertheless, this fact does not change the still high dependence upon traditional exports products. It seems that the changes in the value exports of some negotiated items (e.g. mining products) were only slightly influenced by the concessions granted over them.

In the case of intra-zonal imports, the real impact of the LAFTA concessions was first reflected in 1963, when practically 88% of the total imported from the area came in the form of negotiated products. Imports from LAFTA have been promoted by the concessions granted by Peru. The Peruvian National Schedule has included since 1961 most of the products imported from the area, including different types of meats, fruits (fresh, dried and canned),

and some cereals such as wheat, barley and corn (50). In 1964 the proportion decreased to 83% representing 5.6 million dollars less than in 1963, but in the following year negotiated imports recovered 63.1 million dollars which is the highest value for the 1962-65 period. On the other hand, non-negotiated imports have been increasing in absolute and relative values, the former by nearly 10 million dollars, and the latter from 12.1% to 21.9% in 1963 and 1965, respectively (see Table 26). It can be inferred from this trend that imports from the region are expanding in terms of non-negotiated imports. The negotiated import scheme is comprised mainly of concessions on food and edible products such as wheat, live cattle, beef, apples, canned fruits, dried plums, pears, lentils and mutton. Nevertheless, its share in the total negotiated imports has been decreasing since 1963. This decrease was approximately 4.5% and 5% between 1963-64 and 1964-65, respectively (see Table 28). Wheat, live cattle and beef are the leading products, but only wheat has shown regular increases during the 1962-65 period, up to 9 million dollars.

The analysis in country terms will be made through Tables 29 and 30. Along the four years of the period under analysis negotiated exports went mainly to Argentina, Brazil and Chile. On the other hand, Argentina was the main source of negotiated imports in the area and even in the total imported by Peru.

Peruvian negotiated exports to Argentina followed an upward trend that started in 1963. They show an increment of around 14 million dollars between 1963-65 (see Table 29). It seems that the concessions granted by Argentina in 1961, over cotton and iron ore, foster Peru's export expansion

Table 28. Principal negotiated import products^a (thousand dollars)

LAFTABTN	Product	1962		1963		1964		1965	
		Value	%	Value	%	Value	%	Value	%
10.01.0.01	Wheat	18231	55.4	23829	43.8	26630	54.6	27682	43.8
01.02.1.92	Live cattle	5674	17.3	18196	33.4	5801	11.9	8694	13.8
02.01.1.01	Fresh refrigerated or frozen beef	1686	5.1	2771	5.1	2724	5.6	4417	7.0
08.06.0.01	Fresh apples	480	1.5	636	1.2	1173	2.4	2213	3.5
20.06	Canned fruits, with natural juice or syrup	544	1.7	1256	2.3	1247	2.5	1317	2.1
48.01.1.01	Newsprint paper	701	2.1	901	1.7	615	1.2	838	1.3
02.01.1.11	Fresh refrigerated or frozen mutton	161	0.5	289	0.5	670	1.4	2123	3.4
41.01.1.01	Dried or salted cattle skins	899	2.7	415	0.8	332	0.7	1197	1.9
07.05.1.29	Lentils	176	0.5	176	0.3	363	0.7	400	0.6
08.12.0.03	Dried plums, with seed	103	0.3	127	0.2	180	0.4	259	0.4
08.06.0.02	Fresh pears	74	0.2	126	0.2	162	0.3	195	0.3
32.01.0.02	Quebracho tanned leather extract	-	-	482	0.9	825	1.7	858	1.4
56.01.2.01	Uncombed and uncarded artificial textile fibers	-	-	209	0.4	422	0.9	262	0.4
	Other	4192	12.7	5049	9.2	7665	15.7	12719	20.1
	Total	32921	100.0	54462	100.0	48809	100.0	63174	100.0

^aSource: Ministerio de Fomento y Obras Públicas, Dirección General de Industrias, Departamento de ALALC, Lima, Peru.

in those two products (51). Both of them represented more than half of the total negotiated exports to this country (see Table 57). Regarding negotiated imports, approximately 70% was shared by wheat and live cattle. The two of them had been duty-free long before LAFTA was organized. This was also the case of beef and mutton. On the other hand Quebracho tanned leather extract increased its exports since 1963, as a consequence of the concession granted by Peru in 1962 (see Table 57).

Although negotiated imports from Argentina declined its participation in the total, from 90% to 75.3% between 1962 and 1965, respectively (see Table 30), this country is the LAFTA member utilizing the Peruvian concessions to greatest benefit. This explains the import surplus, in each year of the 1962-65 period, shown by the negotiated trade with Argentina (see Table 29).

Brazil has been the most important market in the area for mineral exports. The concessions granted by this country for zinc, copper, silver and lead (51) were negotiated in the 1961 round of negotiations. Copper and zinc are the leading products. Together they share more than 70% of the total negotiated exports to this country (see Table 57). Nevertheless, the decline that took place with these two products caused a decrease of 5 million dollars in the total negotiated exports in 1965. The level of 8 million dollars that applied during the 1962-64 years dropped to only 3 million dollars (see Table 29). Brazil has become a significant source of imports only since 1965. In this year Brazil made use of the concessions granted by Peru in 1963 and 1961 over products like turret lathes for metal works and data processing machines (52). Both of these products represented 45% of total negotiated imports from Brazil in 1965 (see Table 57).

Table 29. Peru-LAFTA negotiated and non-negotiated trade by countries^a (thousand dollars)

Country	Commodity	1962			1963			1964			1965		
		Exp.	Imp.	Bal.	Exp.	Imp.	Bal.	Exp.	Imp.	Bal.	Exp.	Imp.	Bal.
Argentina	Negotiated	7124	29622	-22498	4083	47695	-43612	13151	39927	-26776	18104	47578	-2947
	Non-neg.	1136	423	713	2189	1340	849	1056	1570	-514	1542	1641	-39
Brazil	Negotiated	8994	75	8919	8082	31	8051	8748	260	8488	3827	627	3200
	Non-neg.	2079	1777	302	1815	953	862	1413	1089	324	1457	8694	7237
Chile	Negotiated	19445	2527	16918	20231	3436	16795	25850	3992	21858	14912	5536	9376
	Non-neg.	4220	939	3281	4539	872	3667	3094	1018	2076	2507	1421	1086
Colombia	Negotiated	-	-	-	1621	214	1407	2750	482	2268	4229	1486	2743
	Non-neg.	1000	4706	-3706	115	2058	-1943	95	2667	-2572	89	3055	-2966
Ecuador	Negotiated	-	-	-	499	2055	-1556	681	2044	-1363	549	3495	-2946
	Non-neg.	1527	3185	-1658	1091	267	824	1085	1788	-703	823	675	148
Mexico	Negotiated	1770	490	-	2307	423	-	3606	956	2650	4247	1670	2477
	Non-neg.	24	1169	-1145	119	1907	-1788	20	1811	-1793	97	2086	-1989
Paraguay	Negotiated	1	156	-155	1	143	-142	-	284	-284	3	461	-458
	Non-neg.	7	5	2	6	2	4	10	14	-4	14	10	4
Uruguay	Negotiated	1187	51	1136	2312	465	1847	2932	864	2068	1620	2321	-701
	Non-neg.	262	62	200	116	127	-11	46	95	49	47	167	-120
LAFTA	Negotiated	38521	32921	5600	39136	54462	-15326	57718	48809	8909	47491	63174	-15683
	Non-neg.	10255	12266	-2011	9990	7526	2464	6819	10052	-3233	6576	17749	-11173

^aSource: (49).

In general terms, negotiated trade with Brazil has shown export surpluses during the period 1962-65. On the other hand most of intra-zonal imports from this country were accounted for by non-negotiated products. The substantial amount of rice imports in 1965 brought up the value to 8.7 million dollars (see Table 29).

Chile is the main export market for Peruvian products in the LAFTA area. It shared most of the negotiated exports to the zone, although exports to it declined during the 1962-65 period, 50.5% to 31.4% respectively (see Table 30). The value of negotiated exports increased by approximately 1 and 5 million dollars between 1962-63 and 1963-64 (see Table 29). The bulk of them, cotton and sugar, were negotiated by Chile since 1961 (51). Sugar exports drastically declined by 14 million dollars in 1965 due to marketing problems and to the rise in the Chilean production of sugar beet (see Table 57). This explains the drop of 10 million dollars in the total negotiated exports to Chile in that year (see Table 29).

Negotiated imports from Chile reflect an expansion generated by the Peruvian concessions. Most of the edible and food products imports from Chile enjoy concessions granted by Peru in the first negotiation (1961) (52). All fruit imports (fresh, dried and canned) have shown regular yearly increases in the 1962-65 period. In 1965 they amounted to 3.7 million dollars compared to only 1.1 million dollars in 1962 (see Table 57). Likewise in this same period, total negotiated imports more than doubled in value (see Table 29). Another important aspect of the Peru-Chile trade is the positive balance of trade achieved in negotiated and non-negotiated terms (see Table 29).

Colombia and Ecuador will be analyzed together because these two countries held their first negotiation at the end of 1961 and in April 1962 (51). Negotiated trade practically began in 1963 for both of them. In the case of Colombian negotiated trade, exports and imports have been continuously increasing throughout the 1963-65 period. Exports rose from 1.6 million dollars in 1963 to 4.2 million dollars in 1965 (see Table 29), representing more than double the share over total negotiated exports (see Table 30). Likewise, negotiated imports increased by approximately 1.3 million dollars between 1963-65. But the bulk of imports from Colombia were non-negotiated items, which increased in value by 1 million dollars in the same period (see Table 29). As a consequence of this fact Colombia has shown import surpluses for both its negotiated and non-negotiated trade.

Colombia is the main export market for fish products in LAFTA. Fish-meal exports tripled in value between 1963-65 and fish oils (raw and refined) followed the same trend (see Table 57). All of them were granted a concession by Colombia in the first negotiation by this country (April 1962) (51). In a certain way these export products can be quoted as trade creation examples due to the real impact of the concessions and the fact that before the negotiation there were practically no exports of them to Colombia. In import terms, synthetic textile fibers was the main product traded in 1963-64. They accounted for nearly 98% and 88%, respectively. In 1965 the import picture also included live cattle and mutton as other significant items (see Table 57).

The development of Peru's intra-zonal trade with Ecuador can be explained in terms of the status of relatively-lesser-developed-country enjoyed by the

Table 30. Participation of Peru-LAFTA negotiated and non-negotiated trade by countries^a
(in percentage)

Country	Negotiated								Non-negotiated							
	Exports				Imports				Exports				Imports			
	1962	1963	1964	1965	1962	1963	1964	1965	1962	1963	1964	1965	1962	1963	1964	1965
Argentina	18.0	10.4	22.8	38.1	90.0	87.6	81.8	75.3	11.1	21.9	15.5	23.4	3.5	17.8	15.6	9.2
Brazil	21.3	20.7	15.1	8.1	0.2	-	0.5	1.0	20.3	18.2	20.7	22.2	4.5	12.7	10.8	49.0
Chile	50.5	51.7	44.8	31.4	7.7	6.3	8.2	8.8	41.1	45.4	45.4	38.1	7.7	11.6	10.1	8.0
Colombia	-	4.1	4.8	8.9	-	0.4	1.0	2.3	9.7	1.2	1.4	1.4	38.4	27.3	26.5	17.2
Ecuador	-	1.3	1.2	1.2	-	3.8	4.2	5.5	14.9	10.9	15.9	12.5	26.0	3.6	17.8	3.8
Mexico	4.6	5.9	6.2	8.9	1.5	0.8	1.9	2.7	0.2	1.2	0.3	1.5	9.5	25.3	18.0	11.8
Paraguay	-	-	-	-	0.5	0.3	0.6	0.7	0.1	-	0.1	0.2	-	-	0.2	0.1
Uruguay	3.1	5.9	5.1	3.4	0.1	0.8	1.8	3.7	2.6	1.2	0.7	0.7	0.4	1.7	1.0	0.9
LAFTA	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

^aSource: Table 29.

latter. As a consequence of this situation most exports have been non-negotiated, while most imports were negotiated products (see Table 29). Imports of negotiated products from Ecuador followed an upward trend in its share in the total of negotiated imports from the area. They accounted for 3.8% and 5.5% in 1963 and 1965, respectively (see Table 30). Cotton was the leading negotiated export. Corn in grain, and live cattle represented significant negotiated imports. For example, live cattle imports doubled its value from 1.2 to 2.4 million dollars between 1963-65 (See Table 57).

Intra-zonal trade with Mexico shows the following development: most of the Peruvian exports were negotiated products such as fishmeal. This product shared the highest proportion of the total negotiated exports to Mexico, and its value in 1962, 1.8 million dollars, increased to 4.2 million dollars by 1965 (see Table 57). This increment was reflected in the rise of Mexican negotiated exports, 8.9% of the total negotiated exports to LAFTA in 1965 (see Table 30). On the other hand, most of the Mexican products imported into Peru were non-negotiated items which increased in value by nearly one million dollars between 1962 and 1965 (see Table 29). Nevertheless, negotiated items imported from Mexico represent products to which some trade creation effects can be attached. This is the case of iron and steel cylinders and pipes that were not traded before 1962 and 1963, respectively, due to the lack of a Peruvian concession (52). The situation of the Peruvian intrazonal trade with Mexico implies that Peru is utilizing, for its products, the concessions granted by Mexico to a higher degree than this country is doing with the Peruvian concessions.

In this sense, Peru maintains a positive balance of trade due to the substantial amounts of fishmeal exports (see Table 29).

Paraguay has been a significant market only for Quebracho tanned leather extract which was traditionally supplied by this country together with Argentina. The concession granted in 1962 over this product promoted even more its import (52). The total of negotiated imports from Paraguay followed the uprising trend of its main component the Quebracho extract. Both doubled its value between 1963-65 (see Table 57).

Uruguay has absorbed increasing amounts of negotiated exports between 1962 and 1964 (see Table 29) although the leading export, cotton, maintained a fairly constant value, around one million dollars, throughout the period under analysis (see Table 57). Uruguay granted a concession over cotton in the 1961 negotiation (51). The rising trend in exports resulted in export surpluses for 1962-64, but in the last year of the period, 1965, the balance of negotiated trade turned into a negative one (see Table 29), partly due to the decline of approximately 800 and 400 thousand dollars in cotton and zinc exports (see Table 57). Imports from Uruguay are composed primarily of meat (beef and mutton) and cattle viscera (see Table 57). All enjoy a concession granted by Peru since 1961 (52).

4. Patterns and trends of Peru-LAFTA trade

The evolution of Peru's intra-zonal trade between 1950-65 can be better analyzed if two separate periods are taken into account: the pre-LAFTA (1950-61) and the post-LAFTA (1961-65) period. The main purpose of this breakdown is to arrive at a comparison between both periods which will reflect to a certain extent the effects of the LAFTA mechanisms upon the

development of intra-zonal trade.

During the pre-LAFTA period (1950-61) Peru's trade with the area was carried out within a framework of a number of bilateral agreements, some of which are still in force (53). The post-LAFTA period comprises the years after the signature of the Treaty of Montevideo (1961-65), although the concessions granted by the first round negotiation (Montevideo 1961) did not enter into operation until 1962.

During the first half of the decade of the 1950's, the present LAFTA market played an important role. Exports to this bloc represented above 20% of global exports. This high level of participation has not been reached in more recent years (see Table 32). In 1952 intra-zonal exports amounted to 66.6 million dollars which is the highest value in the whole period (1950-65) under analysis (see Table 31). This upper peak was generated by the substantial increases in cotton and sugar exports; together they accounted for nearly 45 million dollars (see Table 38). In the following years exports to the area reflected a decline. From a yearly level of about 40 million dollars during the late 1950's, exports decreased to 31.5 million dollars in 1961 (see Table 31); this represented a low share of 6.4%, the lowest percentage in the post-LAFTA period (see Table 32).

Intra-regional imports on the other hand, amounted, with slight variations, to around 20 million dollars between 1951-59. In relative terms Peru's participation in global imports declined from 7.9% to 5.3% between 1950-56. Although a slight recovery took place in the following years (to 6.8% in 1961), the high share of total intra-zonal trade in the first part of the decade of the 1950's has not been reached again (see Table 32).

Table 31. Peruvian intra-zonal - extra-zonal and global trade^a (thousand dollars)

Year	Intra-zonal			Extra-zonal			Global		
	Exports	Imports	Total	Exports	Imports	Total	Exports	Imports	Total
1950	51,199	14,663	65,862	142,387	171,576	313,963	193,586	186,239	379,825
1951	50,375	20,991	71,366	202,142	258,709	460,851	252,517	279,700	532,217
1952	66,633	17,714	84,347	172,103	269,835	441,938	238,736	287,549	526,285
1953	51,212	17,943	69,155	170,770	274,915	445,685	221,982	292,858	514,840
1954	39,918	21,081	60,999	207,690	228,619	436,309	247,608	249,700	497,308
1955	49,941	23,103	73,044	220,911	277,207	498,118	270,852	300,310	571,162
1956	46,859	20,284	67,143	264,566	363,879	628,445	311,425	384,163	695,588
1957	44,702	30,111	74,813	285,294	419,514	704,808	329,996	449,625	779,621
1958	38,149	20,739	58,888	253,295	361,962	615,257	291,449	382,701	674,145
1959	46,715	20,783	67,498	267,482	296,596	564,078	314,197	317,379	631,576
1960	33,484	27,529	61,013	399,548	347,225	746,773	433,032	374,754	807,786
1961	31,548	31,826	63,374	464,789	437,562	902,351	496,337	469,388	965,725
1962	48,776	45,187	93,963	491,271	491,752	983,023	540,047	536,939	1,076,986
1963	49,126	61,988	111,114	492,179	495,140	987,319	541,307	557,126	1,098,433
1964	64,537	58,861	123,398	602,531	520,840	1,123,371	667,068	579,701	1,246,769
1965	54,067	80,923	134,990	613,690	648,851	1,262,810	667,757	729,774	1,397,800

^aSource: (38).

In general terms, the Peruvian intra-zonal trade showed opposing tendencies for exports and imports during this period. Exports to LAFTA followed a declining trend, growing at the negative rate of 4.3%, while imports increased 117% growing at 7.3% annually (see Table 33).

The 1950-61 period showed a positive balance in terms of export surpluses. Export values were far above imports, although the former followed a decreasing trend as opposed to the growth in imports. Peru's trade with the actual LAFTA area declined and export surpluses in the late 1950's were gradually decreasing.

During the years of the post-LAFTA period (1961-65), basic changes took place in the development of Peru's trade with LAFTA. It appears that the entry into force of the concessions granted through the round of negotiations fostered such changes.

Table 32. Participation of Peruvian intra-zonal and extra-zonal trade in Peru's global trade^a

Year	Intra-zonal			Extra-zonal		
	Exports	Imports	Total	Exports	Imports	Total
1950	26.4	7.9	17.3	73.6	92.1	82.7
1951	19.9	7.5	13.4	80.1	92.5	86.6
1952	27.9	6.2	16.0	73.1	93.8	84.0
1953	23.1	6.1	13.4	76.9	93.9	86.6
1954	16.1	8.4	12.3	83.9	91.6	87.7
1955	18.4	7.7	12.8	81.6	92.3	87.2
1956	15.0	5.3	9.7	85.0	94.7	90.3
1957	13.5	6.7	9.6	86.5	93.3	90.4
1958	13.1	5.4	8.7	86.9	94.6	94.6
1959	14.9	6.5	10.7	85.1	93.5	89.3
1960	7.7	7.3	7.6	92.3	92.7	82.4
1961	6.4	6.8	6.6	93.6	93.2	93.4
1962	9.0	8.4	8.7	91.0	91.6	91.3
1963	9.1	11.1	10.1	90.9	88.9	89.9
1964	9.7	10.1	9.9	90.3	89.9	90.1
1965	8.1	11.1	9.7	91.9	88.9	90.3

^aSource: Table 31.

Both intra-zonal exports and imports expanded. Nevertheless this post-LAFTA period shows a net import surplus of around 30 million dollars for the whole period (see Table 31). In general terms this expansion has been translated into a net increment of Peru's trade with the area. Analyzing this period through Table 31, one may appreciate how the rising trend started in 1960, continued throughout the period up to 1965.

The trend followed by intra-zonal trade is a reflection of the correspondent similar tendencies of intra-zonal exports and imports. Exports to the area, for example, showed a low value of 31.5 million dollars in 1961 because sugar exports were diverted from Chile to the USA as a result of the price rise after the Cuban crisis. Nevertheless, during the following years intra-zonal exports recovered, reaching 64.5 million dollars in 1964 (see Table 31). This means a share increment of 3.3% between 1961-64 (see Table 32). Even though intra-regional exports declined by 10 million dollars in 1965, the rate of growth of the post-LAFTA period averaged 14.4% per year (see Table 33).

Intra-zonal imports were the main factor of the increment of Peruvian-LAFTA trade. Imports from the zone increased by 154%, more than two times the 71% increase shown by the intra-zonal exports, and grew at a rate of 26.3% per year (see Table 33). The yearly increases reached their peak between 1964-65, when imports from LAFTA accounted for an additional amount of 22 million dollars (see Table 31), and shared 11.1% of global imports, in relative terms (see Table 33).

A comparison of intra-zonal trade with extra-zonal and global trade will permit a clear view of the dynamic development of the former in the past-LAFTA period (1961-65).

Table 33. Peru - LAFTA trade development^a

Country	Percentage of increase				Annual cumulative growth rate			
	1950-61		1961-65		1950-61		1961-65	
	Exports	Imports	Exports	Imports	Exports	Imports	Exports	Imports
Argentina	-14	207	141	134	-1.4	10.8	24.5	23.3
Brazil	619	1209	38	837	19.7	26.3	8.5	74.5
Chile	-49	47	21	110	-6.0	3.5	4.9	20.3
Colombia	-85	^b	356	7	-15.7	^c	46.2	1.6
Ecuador	63	-76	28	265	4.5	-13.6	-4.6	38.2
Mexico	785	85	376	380	21.0	5.7	48.0	15.3
Paraguay	240	640 ^d	0 ^e	324	11.8	20.0 ^d	0 ^e	43.4
Uruguay	-74	-51	17	1282	-1.4	-6.3	4.1	91.7
LAFTA	-38	117	71	154	-4.3	7.3	14.4	26.3

^aSource: Tables 36 and 42.

^b70,867, because the values in 1950 and 1961 were 6 and 4,258 respectively.

^cThe value for 1950 was too small, 6.

^dNo significant imports between 1951-55.

^eThe value for 1961 and 1965 was 17.

In exports terms, both extra-zonal and global exports grew at practically half the rate of intra-zonal. On the other hand in the case of intra-zonal imports the difference is even bigger: while imports from LAFTA grew at 26.3%, extra-zonal and global imports increased at 10.4% and 11.7% respectively. Finally total trade with LAFTA grew at more than double the rate for the trade with third countries and the total global trade of Peru (see Table 34).

Table 34. Peruvian intra-zonal, extra-zonal and global trade annual cumulative growth rates^a

Period	Intra-zonal			Extra-zonal			Global		
	Exports	Imports	Total	Exports	Imports	Total	Exports	Imports	Total
1950-61	-4.3	7.3	-0.4	11.3	8.9	10.1	8.9	8.8	8.8
1961-65	14.4	26.3	21.0	7.2	10.4	8.8	7.7	11.7	9.6

^aSource: Tables 31 and 33.

Looking at the participation of intra-zonal trade in Peru's G.D.P., the following observation can be made: in Table 35 we can see that the share of intra-zonal trade showed a declining trend between 1950-61. The 5.8% share of 1950 dropped to 2.5% in 1961. In the post-LAFTA period a slight recovery took place, intra-zonal trade accounted for approximately 3.2% of G.D.P. In other words, the contribution of intra-zonal trade to G.D.P. has become less important during the final years of the 1950's and first years of the decade of the 1960's.

Table 35. Gross domestic product and Peru-LAFTA trade^a (million dollars)

Year	G.D.P.	Peru-LAFTA trade					
		Value			Participation in the G.D.P.(%)		
		Exports	Imports	Total	Exports	Imports	Total
1950	1124.05	51	14	65	4.5	1.3	5.8
1951	1396.23	50	20	71	3.6	1.5	5.1
1952	1447.99	66	17	84	4.6	1.2	5.8
1953	1430.10	51	17	69	3.5	1.2	4.8
1954	1461.27	39	21	60	2.7	1.4	4.1
1955	1648.34	49	23	73	3.0	1.4	4.4
1956	1836.12	46	20	67	2.5	1.1	3.6
1957	2007.86	44	30	74	2.2	1.4	3.7
1958	1823.56	38	20	58	2.1	1.1	3.2
1959	1816.92	46	20	67	2.5	1.1	3.7
1960	2207.01	33	27	61	1.5	1.2	2.7
1961	2513.89	31	31	63	1.2	1.2	2.5
1962	2889.00	48	45	93	1.6	1.0	3.2
1963	3170.80	49	61	111	1.5	1.9	3.5
1964	3755.86	64	58	123	1.7	1.5	3.2
1965	4592.09	54	80	134	1.1	1.7	2.9

^aSource: Table 30 and (37).

5. Intra-zonal trade

The present part will deal with Peru-LAFTA's intra-zonal trade. This important aspect of the Peruvian membership will be treated in country and in product terms.

Intra-zonal exports - Two main aspects must be considered in the analysis of intra-zonal exports. On the one hand the market concentration, and on the other the product concentration. Practically speaking Argentina and Chile, with few exceptions, have been the main export markets in the LAFTA area. This fact was true during the pre- and post-LAFTA periods (1950-61 and 1961-65). Both countries accounted for more than 65% of total Peruvian exports to the zone (see Table 37).

As has been pointed out in other parts of this work, Peruvian exports consisted mainly of the so-called "traditional products": twelve products usually grouped in agriculture, fish and mining products. Both before and after LAFTA was organized, the agriculture group composed of coffee, cotton, sugar, and wool represented the bulk of Peruvian exports to the zone. Slightly, above 50% was shared by this group (see Table 41); Cotton and sugar together shared between 50% and 60% (see Table 39) during the 1950-65 period. This increase was generated by the rising trend of cotton exports started in 1963 (9 million dollars increase from 1963 to 1965) (see Table 38), while sugar export values were below the level reached in the pre-LAFTA years. Fish products like fishmeal and fish oil, have been traded since 1952, but not until the early 1960's and 1963, respectively, did these two products start their dramatic increase. Both products were granted concessions in the first round negotiation. The fish group accounted for 9.6 million dollars of exports in 1965 compared to the low value of 2.4 million

Table 36. Peruvian intra-zonal exports by countries^a (thousand dollars)

Year	Argentina	Brazil	Chile	Colombia	Ecuador	Mexico	Paraguay	Uruguay	LAFTA
1950	9,448	531	28,322	6,172	1,173	103	5	5,445	51,199
1951	14,023	3,100	19,171	5,504	1,528	13	2	7,034	50,375
1952	10,777	507	42,079	5,148	2,155	11	12	5,944	66,633
1953	6,618	250	30,094	7,428	2,559	21	9	4,233	51,212
1954	6,045	593	26,205	3,022	2,296	58	9	1,690	39,918
1955	4,845	690	36,293	3,116	3,902	32	181	952	49,941
1956	5,303	1,934	27,380	5,933	3,876	107	530	1,794	46,859
1957	6,499	2,481	26,255	1,074	4,775	323	-	3,295	44,702
1958	2,617	1,539	29,474	1,063	2,706	219	8	523	38,149
1959	10,016	1,431	29,719	1,400	2,824	576	5	744	46,715
1960	9,466	2,115	16,522	771	3,132	805	8	667	33,486
1961	8,153	3,820	14,364	946	1,912	912	17	1,424	31,548
1962	8,260	11,073	23,665	1,000	1,527	1,794	8	1,449	48,776
1963	6,272	9,897	24,770	1,736	1,590	2,426	7	2,428	49,126
1964	14,207	10,161	28,944	2,845	1,766	3,626	10	2,978	64,537
1965	19,646	5,284	17,419	4,318	1,372	4,344	17	1,667	54,067

^aSource: (38).

dollars returned for 1962 (see Table 40). This represents in relative terms an increment of 13% (see Table 41) between 1962-65. Fishmeal exports alone increased by 8% or 4.5 million dollars (see Tables 38-39). On the other hand, mining products, represented by copper, crude petroleum, iron ore, lead, silver, and zinc averaged approximately 10% of total exports to LAFTA in the 1950-61 period, and in the following years (the post-LAFTA period) they achieved higher percentages (see Table 41). Nevertheless, the upward trend followed by the participation of the fish group in the total exported to LAFTA was achieved at the expense of the mining group. Among the six mining products taken into consideration only petroleum, which was traded long before LAFTA was organized with a fairly constant export value of 2 million dollars (see Table 38) and zinc, specially in its share for the post-LAFTA years, reached significant values in intra-zonal exports.

The non-traditional products are comprised in "other"; this group has been decreasing its importance in the export scheme. They accounted for 7.4 million dollars in 1962 (see Table 40) which amounted to 15.3% of total intra-zonal exports (see Table 41), compared to the values achieved in 1965: 5.1 million dollars (see Table 40) and only 9.5% (see Table 41). It can be inferred from this decline that the Peruvian intra-zonal exports were more diversified in the decade of the 1950's in which nearly 25% of the exports to the area were composed of these products while in the post-LAFTA years they became more concentrated in the traditional products partly due to the concessions granted over them.

Table 37. Country's participation in the peruvian intra-zonal exports^a (in percentage)

Year	Argentina	Brazil	Chile	Colombia	Ecuador	Mexico	Paraguay	Uruguay	LAFTA
1950	18.45	1.04	55.32	12.05	2.29	0.20	0.01	10.64	100.00
1951	27.84	6.15	38.06	10.93	3.03	0.03	-	13.96	100.00
1952	16.17	0.76	63.15	7.73	3.23	0.02	0.02	8.92	100.00
1953	12.92	0.49	58.76	14.50	5.00	0.04	0.02	8.27	100.00
1954	15.14	1.49	65.65	7.57	5.75	0.15	0.02	4.23	100.00
1955	9.70	1.24	72.67	6.24	7.82	0.06	0.36	1.91	100.00
1956	11.32	4.13	58.43	12.66	8.27	0.23	1.13	3.83	100.00
1957	14.54	5.55	58.74	2.40	10.68	0.72	-	7.37	100.00
1958	6.86	4.04	77.26	2.79	7.09	0.57	0.02	1.37	100.00
1959	21.44	3.06	63.62	3.00	6.05	1.23	0.01	1.59	100.00
1960	28.27	6.32	49.34	2.30	9.35	2.40	0.02	1.99	100.00
1961	25.84	12.11	45.53	3.00	6.06	2.89	0.05	4.51	100.00
1962	16.93	22.70	48.52	2.05	3.13	3.68	0.02	2.97	100.00
1963	12.77	20.15	50.42	3.53	3.24	4.94	0.01	4.94	100.00
1964	22.01	15.74	44.85	4.41	2.74	5.62	0.02	4.61	100.00
1965	36.34	9.77	32.22	7.99	2.54	8.03	0.03	3.08	100.00

^a Source: Table 36.

Table 38. Peruvian intra-zonal basic export products^a (thousand dollars)

Year	Coffee	Cotton	Sugar	Wool	Fish meal	Fish oil	Copper	Crude petrol.	Iron, ore	Lead	Silver	Zinc	Other	Total
1950	-	10,379	17,225	84	-	-	-	4,633	-	429	6	106	18,337	51,199
1951	12	5,663	13,726	45	-	-	4,946	2,444	-	1,455	4	300	21,780	50,375
1952	-	23,637	19,982	122	7	1	27	2,938	-	616	1	54	19,248	66,633
1953	-	21,398	14,052	77	-	121	398	3,066	-	661	-	183	11,256	51,212
1954	-	10,751	10,927	363	30	112	1,805	1,569	-	541	141	600	13,079	39,918
1955	-	16,774	13,149	124	28	18	1,091	1,246	-	311	2	447	16,751	49,941
1956	-	14,185	12,264	2	100	1	3	1,591	-	245	2	135	18,331	46,859
1957	10	6,086	13,653	1	303	-	-	5,072	-	876	-	65	18,636	44,702
1958	4	11,492	12,505	1	198	-	373	2,979	-	208	-	167	10,222	38,149
1959	5	16,866	10,983	5	602	-	67	3,292	940	457	-	55	13,443	46,715
1960	24	10,080	4,578	29	983	-	50	3,230	690	439	-	390	12,993	33,486
1961	140	16,423	-	40	1,217	-	1,145	2,714	809	984	41	813	7,222	31,548
1962	27	23,940	-	60	2,118	250	5,061	2,365	2,100	1,223	324	3,837	7,471	48,776
1963	64	17,422	9,357	74	2,725	819	3,408	3,178	784	1,490	529	3,162	6,114	49,126
1964	57	21,388	17,371	101	4,304	1,501	1,611	2,296	1,508	1,152	1,272	6,500	5,476	64,537
1965	59	26,331	3,696	87	6,625	3,001	200	2,634	246	808	515	4,739	5,126	54,067

^aSource: (38).

Table 39. Basic export product's participation in the Peruvian intra-zonal trade^a (in percentage)

Year	Coffee	Cotton	Sugar	Wood	Fish-meal	Fish oil	Copper	Crude petrol.	Iron, ore	Lead	Silver	Zinc	Other	Total
1950	-	20.27	33.64	0.16	-	-	-	9.05	-	0.84	0.01	0.21	35.82	100.00
1951	0.02	11.24	27.25	0.09	-	-	9.82	4.85	-	2.89	0.01	0.60	43.23	100.00
1952	-	35.47	30.00	0.18	0.01	-	0.04	4.41	-	0.92	-	0.08	28.89	100.00
1953	-	41.78	27.44	0.15	-	0.24	0.78	5.99	-	1.29	-	0.36	21.97	100.00
1954	-	26.93	27.37	0.91	0.08	0.28	4.52	3.93	-	1.36	0.35	1.50	32.77	100.00
1955	-	33.59	26.33	0.25	0.06	0.04	2.18	2.49	-	0.62	-	0.90	33.54	100.00
1956	-	30.27	26.17	-	0.21	-	0.01	3.40	-	0.52	-	0.29	39.13	100.00
1957	0.02	13.61	30.54	-	0.68	-	-	11.35	-	1.96	-	0.16	41.68	100.00
1958	0.01	30.12	32.78	-	0.52	-	0.98	7.81	-	0.55	-	0.44	26.79	100.00
1959	0.01	36.10	23.51	0.01	1.29	-	0.14	7.05	2.01	0.98	-	0.12	28.78	100.00
1960	0.07	30.10	13.67	0.09	2.94	-	0.15	9.65	2.06	1.31	-	1.16	38.80	100.00
1961	0.44	52.06	-	0.13	3.86	-	3.63	8.60	2.56	3.12	0.13	2.58	22.89	100.00
1962	0.06	49.08	-	0.12	4.34	0.51	10.38	4.85	4.31	2.51	0.66	7.87	15.31	100.00
1963	0.13	35.46	19.05	0.15	5.55	1.67	6.94	6.47	1.60	3.03	1.08	6.43	12.44	100.00
1964	0.09	33.14	26.92	0.16	6.67	2.33	2.50	3.56	2.34	1.79	1.97	10.07	8.46	100.00
1965	0.11	48.70	6.84	0.16	12.25	5.55	0.37	4.87	0.46	1.49	0.95	8.77	9.48	100.00

^aSource: Table 38.

During the years before the signature of the Treaty of Montevideo, exports to Argentina represented between 10% in 1955 and 28% in 1960 (see Table 37) of total intra-zonal exports, placing this country as Peru's second export market in the LAFTA bloc. Likewise in the post-LAFTA period, exports to this country increased from 8.2 to nearly 20 million dollars between 1961-65 (see Table 36) reaching the highest level of participation in 1965, viz, 36.3% (see Table 37). In a yearly analysis the following development took place: cotton exports to Argentina represented approximately 50% of the total exported to this country in 1962-63, increasing to 70% in the following years.

Cotton exports were significant in 1964-65. This country absorbed 50% of total cotton exports to the LAFTA area, amounting to 10 and 14 million dollars in 1964 and 1965, respectively. The same is true for wool and copper, approximately three fourths and 40% of the total exported of each one to the zone was shipped to Argentina in the same years.

Argentina has been the main market for petroleum, a product that is decreasing its importance in the export scheme. It represented 50%, or more than one million dollars, during the 1960-65 years. Iron ore intra-zonal exports were totally absorbed by Argentina, but the share of this product within the export scheme of this country has decreased from 25% to only 7% from 1962 to 1965. Other (which comprises the non-traditional exports) increased its share in the total value exported to Argentina, by nearly 16% between 1963-65 (see Tables 58 to 63 in the Appendix for the product analysis).

Export trade with Brazil was fairly marginal in the 1950-61 period (an exception is the 3 million dollars worth of goods exported in 1951).

Likewise, during the post-LAFTA years the share of Brazil as a Peruvian export market followed a downward trend, accounting for 22.7% in 1962 compared to only 9.8% in 1965 (see Table 37). Only five traditional products out of the twelve considered in this analysis were significant. For example, the Brazilian market absorbed approximately 90% and more than 50% of copper exports to LAFTA in the 1962-63 and 1964-65 period, and approximately 50% of intra-zonal petroleum exports. This represented about 1.5 million dollars during the 1960-65 period. Likewise lead, silver and zinc are also important metals exported to Brazil. Around 60% of total intra-zonal lead exports went to this country in the 1961-64 period, but this share decreased to 24% in 1965 due to the increment in the exports of this metal to Chile and Uruguay. In the case of the latter metals, the Brazilian market absorbed as high as 90% of total exports of silver and zinc to the LAFTA zone between 1962 and 1964. Zinc is the most important single product exported to Brazil, amounting to approximately 3 million dollars in the post-LAFTA period (except in 1964 in which the value went up to 5.4 million dollars). In 1965 Argentina and Chile also competed in the LAFTA zinc market (see Tables 58 to 63 in the Appendix for the product analysis).

Chile has been the most important market in the area. In both the pre- and post-LAFTA periods, this country shared high percentages in the total exported to the zone. Nevertheless the pre-LAFTA share was higher than that achieved in the following years (see Table 37). For example, the peak year for exports to Chile was 1958, when it bought 77.3%, the highest participation of any member country in the whole period under study. During

the other years, the Chilean participation was always above 55% (see Table 37). This is partly explained by the special concessions contained in the Peru-Chile Treaty of Commerce (53) that fostered bilateral trade between both countries. During the post-LAFTA years exports to Chile decreased between 1963 and 1965 from 50.4% to 32.2%, respectively. In product terms, more than 50% of coffee exports to LAFTA members went to Chile. Cotton exports became important only in 1964-65. They accounted for 8 and 10 million dollars respectively, sharing approximately 38%. In the case of sugar, Chile has been practically the sole market in the zone. Sales of 17.2 million dollars in 1964 were the highest peak. Nevertheless, sugar exports were suspended during 1961-62 when total exports of this product were switched to the USA due to the substantial increase in the domestic demand of that country, with the consequent price rise. Sugar and cotton comprised the most important products exported to Chile.

Between 1960-63 Chile absorbed 60% of intra-zonal wool exports, although in 1964-65 Argentina was the main export market in LAFTA. Zinc shipments to Chile in 1965 shared 50% of the total of this metal sold within the area. No other mineral export reached significant values in this period 1961-65.

Other (which comprises non-traditional export items) has been following a downward trend. Nevertheless, during the period under analysis the Chilean market has absorbed traditional and non-traditional products almost in the same proportion. This is characteristic in the case of Chile compared with the other member countries (see Tables 58 to 63 in the Appendix for the product analysis).

Exports to Colombia were larger in the early 1950's than in the decade of the 1960's. In 1953 they totaled 7.4 million dollars which was the highest value for the 1950-65 period (see Table 36). On the other hand during the post-LAFTA years exports to Colombia increased by 3 million dollars (see Table 36), with the consequent increase in share from 2% in 1962 to nearly 8% in 1965 (see Table 37). This increment can be partly explained by the dramatic increase in fish oil exports. This product amounted to nearly 3 million dollars in 1965 compared to only 250 thousand dollars in 1962. The expansion of this product represents a good example of trade creation considering that, on the one hand, fish oil was not traded before 1962, and on the other hand, Colombia granted a concession over this product in the first round negotiation in 1962. More than 95% of the total fish oil exported to LAFTA went to Colombia and its importance among the different items exported to this country is reflected in the rise in its share from 25% in 1962 to 69% in 1965. The Colombian market also accounted for 10% in average of the total intra-zonal fishmeal exports to LAFTA (see Tables IX to XIV in the Appendix for the product analysis).

Ecuador has traditionally been a market for a wide range of Peruvian exports due to its situation as a border country. Most of these products are different from the well known traditional exports. In the post-LAFTA period approximately 17% of other (non-traditional exports) went to Ecuador, representing between 80% and 75%, during the 1962-65, of the total exported to this country (see Tables 58 to 63 in the Appendix for the product analysis).

Mexico is almost a new market for Peruvian products. Since 1958 a rising trend started and continued throughout the post-LAFTA period. This

Table 40. Peruvian intra-zonal exports by group of products^a
(thousand dollars)

Year	Agriculture	Fish	Mining	Other	Total
1950	27,699	-	5,174	18,337	51,199
1951	19,446	-	9,149	21,780	50,375
1952	43,741	8	3,636	19,248	66,633
1953	35,527	121	4,308	11,256	51,212
1954	22,041	142	4,656	13,079	39,918
1955	30,047	46	3,097	16,751	49,941
1956	26,451	101	1,976	18,331	46,859
1957	19,750	303	6,013	18,636	44,702
1958	24,002	198	3,727	10,222	38,149
1959	27,859	602	4,811	13,443	46,715
1960	14,711	983	4,799	12,993	33,486
1961	16,603	1,217	6,506	7,222	31,548
1962	24,027	2,368	14,910	7,471	48,776
1963	26,917	3,544	12,551	6,114	49,126
1964	38,917	5,805	14,339	5,476	64,537
1965	30,173	9,626	9,142	5,126	54,067

^aSource: Table 38.

Table 40. Peruvian intra-zonal exports by group of products^a
(thousand dollars)

Year	Agriculture	Fish	Mining	Other	Total
1950	27,688	-	5,174	18,337	51,199
1951	19,446	-	9,149	21,780	50,375
1952	43,741	8	3,636	19,248	66,633
1953	35,527	121	4,308	11,256	51,212
1954	22,041	142	4,656	13,079	39,918
1955	30,047	46	3,097	16,751	49,941
1956	26,451	101	1,976	18,331	46,859
1957	19,750	303	6,013	18,636	44,702
1958	24,002	198	3,727	10,222	38,149
1959	27,859	602	4,811	13,443	46,715
1960	14,711	983	4,799	12,993	33,486
1961	16,603	1,217	6,506	7,222	31,548
1962	24,027	2,368	14,910	7,471	48,776
1963	26,917	3,544	12,551	6,114	49,126
1964	38,917	5,805	14,339	5,476	64,537
1965	30,173	9,626	9,142	5,126	54,067

^aSource: Table 38.

Table 41. Export group of product's participation in the Peruvian intrazonal trade^a (in percentage)

Year	Agriculture	Fish	Mining	Other	Total
1950	54.07	-	10.11	35.82	100.00
1951	38.60	-	18.17	43.23	100.00
1952	65.65	0.01	5.45	28.89	100.00
1953	69.37	0.24	8.42	21.97	100.00
1954	55.21	0.36	11.66	32.77	100.00
1955	60.17	0.10	6.19	33.54	100.00
1956	56.44	0.21	4.22	39.13	100.00
1957	44.17	0.68	13.47	41.68	100.00
1958	62.91	0.52	9.78	26.79	100.00
1959	59.63	1.29	10.30	28.78	100.00
1960	43.93	2.94	14.33	38.80	100.00
1961	52.63	3.86	20.62	22.89	100.00
1962	49.26	4.85	30.58	15.31	100.00
1963	54.79	7.22	25.55	12.44	100.00
1964	60.31	9.00	22.23	8.46	100.00
1965	55.81	17.80	16.91	9.48	100.00

^aSource: Table 40.

represented an increment of approximately 7.5% in the total exported to the area (see Table 37). After the entry into force of the Treaty of Montevideo, exports to Mexico were fostered even more. In almost every year of the 1962-65 period, exports to this country increased by approximately one million dollars. The export values for 1962 and 1965 were 1.8 and 4.3 million dollars, respectively (see Table 36).

Peru's intra-zonal exports to Mexico are perhaps another example of trade creation, and fishmeal is the outstanding product. This product generated the dramatic increment in exports to Mexico, when this country granted a concession on fishmeal in the first round negotiation (51). Exports of this product accounted for 2.3 million dollars more between 1962-65. The Mexican market absorbed more than 95% of the total fishmeal exports to LAFTA, or approximately 80% of the total Peruvian exports to Mexico (see Tables 58 to 63 in the Appendix for the product analysis). Paraguay still remains a market of minimal importance (see Table 36).

Exports to Uruguay have followed in the 1961-65 period, a very irregular trend in absolute and relative values (see Table 36 and Table 37). This country absorbed no more than 8% of total intra-zonal cotton exports, amounting to approximately one million dollars. This product represented around 50% of the total exported to this country in the 1963-65 period. Among mineral products, only zinc was exported in significant amounts in 1965, sharing 25% of the total exports of this metal within area (see Tables 58 to 63 in the Appendix for the product analysis).

Intra-zonal imports - In the case of imports from the area, the same aspects considered for the export analysis are also valid. Intra-zonal im-

ports are mainly concentrated in certain countries and are heavily dependent on a few groups of products. Argentina and Chile constitute, again, the main import markets in the zone. Both countries shared approximately 80% (see Table 43) throughout the period under analysis (1950-65). This analysis will deal with the data for the 1960-65 period in product terms because there is no available statistical information prior to 1960 classified by the SITC classification. The twelve SITC categories taken into the analysis represented between 80% and 88% of the intra-zonal imports from LAFTA, thus the sample is highly representative. The LAFTA intra-zonal import scheme was mainly composed of food and edible products. According to Table 45, cereals and preparations share the highest participation, representing around 40%. Within this group, wheat (the most important import product), barley, and corn were chiefly supplied by Argentina, Chile and Ecuador. This category increased its value from 18.5 to 34 million dollars in the 1962-65 period (see Table 44). The second most important import categories have been live animals and meat and preparations. Live cattle from Argentina, and beef and mutton from Argentina and Uruguay in the two last years of the post-LAFTA period have been outstanding products. This was true even before LAFTA was instituted. Meat and preparations had been imported from the area in constantly increasing amounts. From 0.7, they went up to 2.1 million dollars between 1960-62. Likewise after the first round negotiation (1961), through the concessions granted for products in this category, value imports increased approximately 5 million dollars during the 1962-65 years (see Table 44) representing 3.5% more in its share (see Table 45) of the total imported from LAFTA. Fruit and vegetables increased in absolute value by

Table 42. Peruvian intra-zonal imports by countries^a (thousand dollars)

Year	Argentina	Brazil	Chile	Colombia	Ecuador	Mexico	Paraguay	Uruguay	LAFTA
1950	6,848	76	2,262	6	4,665	423	15	368	14,663
1951	11,434	3,413	3,591	20	1,447	839	-	247	20,991
1952	8,775	2,500	5,273	75	261	589	-	241	17,714
1953	11,587	111	4,413	135	270	473	-	954	17,943
1954	17,502	77	2,470	73	231	693	-	35	21,081
1955	14,171	73	3,815	364	217	609	-	3,854	23,103
1956	15,099	50	3,598	52	392	706	6	381	20,284
1957	18,719	129	4,658	1,408	3,649	711	6	831	30,111
1958	11,748	232	3,059	1,736	349	658	32	2,925	20,739
1959	13,681	209	3,153	2,526	261	810	123	20	20,783
1960	17,712	518	3,328	3,499	1,507	822	45	98	27,529
1961	21,038	995	3,320	4,258	1,142	782	111	180	31,826
1962	30,045	1,852	3,466	4,706	3,185	1,659	161	113	45,187
1963	49,035	984	4,308	2,272	2,322	2,330	145	592	61,988
1964	41,497	1,349	5,010	3,149	3,832	2,767	298	959	58,861
1965	49,219	9,321	6,957	4,541	4,170	3,756	471	2,488	80,923

^aSource: (38).

nearly 3 million dollars in the post-LAFTA years (see Table 44). The SITC categories not taken into account and which are included in "other" have been constantly growing since 1960, increasing to four fold between 1960-65 (see Table 44). On the other hand, the fact that "other" has been increasing implies that the intra-zonal import scheme is including more products with the consequent import diversification.

Argentina, long before LAFTA was organized, has been an important source of food and edible import products for Peru. Table 42 shows that during the decade of the 1950's imports from this country varied between 11 and 18 million dollars (the low values for 1950 and 1952 are the exception). Likewise, in relative terms, the Argentine market shared more than 50% of intra-zonal imports in the years before the decade of the 1960's (see Table 43). The rising trend started in 1958 with 11.7 million dollars, reached its peak in 1965 when value imports reached 49.2 million dollars (see Table 42). This is the highest import value ever reached by any member country. Within the products imported from Argentina the following ones comprise the highest percentages: cereals and preparations, wheat as the main product, shared 50% approximately, 10% of meat and preparations, especially beef; the live animals category dropped its share from 36.3% to 12% between 1963 and 1965. The importance of the Argentina market can be better understood in the light of its share in the total intra-zonal imports of the different SITC categories. For example, Argentina appears as the main source of live animals, meat and preparations, and cereal and preparations in the LAFTA zone. Nevertheless, the high shares of these three categories achieved in the early 1960's, have been slightly declining

Table 43. Country's participation in the Peruvian intra-zonal imports^a (in percentage)

Year	Argentina	Brazil	Chile	Colombia	Ecuador	Mexico	Paraguay	Uruguay	LAFTA
1950	46.70	0.52	15.43	0.04	31.81	2.89	0.10	2.51	100.00
1951	54.47	16.26	17.11	0.10	6.89	4.00	-	1.17	100.00
1952	49.54	14.11	29.77	0.42	1.47	3.32	-	1.36	100.00
1953	64.58	0.62	24.59	0.75	1.50	2.64	-	5.32	100.00
1954	83.02	0.36	11.72	0.35	1.10	3.29	-	0.16	100.00
1955	61.34	0.32	16.51	1.58	0.94	2.63	-	16.68	100.00
1956	74.44	0.25	17.74	0.25	1.93	3.48	0.03	1.88	100.00
1957	62.17	0.43	15.47	4.67	12.12	2.36	0.02	2.76	100.00
1958	56.65	1.12	14.75	8.37	1.68	3.17	0.16	14.10	100.00
1959	65.83	1.00	15.17	12.15	1.26	3.90	0.59	0.10	100.00
1960	64.34	1.88	12.09	12.71	5.47	2.99	0.16	0.36	100.00
1961	66.10	3.13	10.43	13.38	3.59	2.46	0.35	0.56	100.00
1962	66.49	4.10	7.67	10.41	7.05	3.67	0.36	0.25	100.00
1963	79.00	1.59	6.95	3.67	3.75	3.76	0.23	0.95	100.00
1964	70.50	2.29	8.51	5.35	6.51	4.70	0.51	1.63	100.00
1965	60.82	11.52	8.60	5.61	5.15	4.64	0.58	3.08	100.00

^aSource: Table 42.

in the post-LAFTA years. This could be partly explained by the fact that the concessions granted for these products promoted the expansion into Peru of their import from other member countries which had not been import sources before (this is the case of beef imports from Colombia and Paraguay). In the case of cereals and preparations they increased in import value from around 14 million dollars in 1960-61 to 27.8 million dollars in 1965. This is also true for meat and preparations which increased by more than 5 million dollars between 1960 and 1965. Argentina is the second supplier of fruit and vegetables in the area, its variations following almost exactly those of Chile. Practically all imports of undressed hides and skins from the zone came from Argentina, amounting to 1.1 million dollars in 1965. In 1963-64 one fourth of intra-zonal petroleum imports came from Argentina dropping to only 10% in 1965 due to the increase in the Colombian supply in that year. The category that includes fixed vegetable oils doubled its participation in the total of this product imported from the LAFTA area, from 50% to 100% in the 1964-65 years.

Dyeing, tanning and coloring materials imports amounted to about half a million dollars during the post-LAFTA years, although the share in the total imported of this category from the area has followed a decreasing trend. In this category the main product has been Quebracho tanned leather extract. The other categories of the SITC classification have been also traded with Argentina. They are grouped in "other". Between 1962-65 they increased by 3.1 million dollars (see Tables 64 to 69 in the Appendix for the product analysis).

Table 44. Peru-LAFTA basic SITC import categories^a (thousand dollars)

SITC category	1960	1961	1962	1963	1964	1965
00 Live animals	220	475	7687	19044	6408	9424
01 Meat and preparations	774	2185	3014	4210	5128	8274
04 Cereals and preparations	14487	14343	18463	24231	28843	34048
05 Fruit and vegetables	1313	1755	1981	3053	3858	5280
07 Coffee, tea, cocoa, and spices	1252	869	779	518	239	1147
21 Hides and skins, undressed	875	371	901	419	398	1202
29 Crude animal and vegetable materials, N.E.S.	206	853	1596	762	554	105
33 Petroleum and derivatives	3414	3708	4313	1541	2716	2013
41 Animal oils and fats	-	623	-	124	-	1
42 Fixed vegetable oils	3	1126	-	4	4	2249
53 Dyeing, tanning and coloring materials	776	529	840	620	988	1291
56 Fertilizer, manufactured	96	54	84	75	89	142
Other	4143	4935	5529	7387	9636	15747
Total	27529	31826	45187	61988	58861	80923

^aSource: Instituto Nacional de Planificación, Departamento de Comercio Exterior, Lima, Peru.

Table 45. Peru-LAFTA basic SITC import categories^a (in percentage)

SITC category	1960	1961	1962	1963	1964	1965
00 Live animals	0.8	1.5	17.0	30.8	10.9	11.6
01 Meat and preparations	2.8	6.9	6.7	6.8	8.7	10.2
04 Cereal and preparations	52.6	45.1	40.9	39.1	48.9	42.1
05 Fruit and vegetables	4.8	5.5	4.4	4.9	6.6	6.5
07 Coffee, tea, cocoa and spices	4.5	2.7	1.7	0.8	0.4	1.4
21 Hides and skin, undressed	3.2	1.2	2.0	0.7	0.7	1.5
29 Crude animal and vegetable materials, N.E.S.	0.7	2.7	3.5	1.2	0.9	0.1
33 Petroleum and derivatives	12.4	11.6	9.5	2.5	4.6	2.5
41 Animal oils and fats	-	1.9	-	0.2	-	-
42 Fixed vegetable oils	-	3.5	-	-	-	2.8
53 Dyeing, tanning and coloring materials	2.8	1.7	1.9	1.0	1.7	1.6
56 Fertilizer, manufactured	0.3	0.2	0.2	0.1	0.2	0.2
Other	15.1	15.5	12.2	11.9	16.4	19.5
Total	100.0	100.0	100.0	100.0	100.0	100.0

^aSource: Table 44.

According to Tables 42 and 43, Brazil has been a member country that followed a very irregular trend in the pre- and post-LAFTA periods. The Brazilian share in total of intra-zonal imports increased by 10% between 1963-65 (see Table 43), amounting to around one million dollars (see Table 42). 1965 was an exceptional year in this period, when imports accounted for 9.3 million dollars due to the unusual value of rice imports. This product alone amounted to 6.1 million dollars. Peruvian intra-zonal imports from Brazil were mainly composed of crude animal and vegetable materials, notably gums and resins, although its participation in the total imported of this category from the zone has decreased by 15% between 1962-64 (see Tables 64 to 69 in the Appendix for the product analysis). Chile, besides Argentina, has been the second important market source in LAFTA. Chilean products were imported in the pre-LAFTA years in amounts that ranged between 2.2 (1950) and 5.2 (1952) million dollars, for an annual average of approximately 3.5 million dollars (see Table 42). On the other hand, the post-LAFTA period shows an upward trend. The 1961 import value of 3.3 million dollars increased to a peak in 1965, when intra-zonal imports from Chile amounted to 6.9 million dollars (see Table 42). In product terms, fruit and vegetables and "other" (which comprises the SITC categories not taken into account in this analysis) summed up the bulk of the import picture from this country. The former category accounted for 40% in 1961-62 and 60% in 1964-65, while the latter dropped its share from approximately 50% to 35% between 1960-63 and 1964-65, respectively. Consistent with this composition, Chilean fruit and vegetable imports show a yearly increase of nearly a million dollars during the years of the 1962-63 period. Chile

is the source of 75% to 80% of the fruit and vegetables imported from the zone. In other words it is the main supplier of non-tropical fruits in the LAFTA area (see Tables 64 to 69 in the Appendix for the product analysis).

Colombia and Ecuador can be analyzed together due to their similar intra-zonal import development in the post-LAFTA years. Nevertheless, in the decade of the 1950's the countries showed opposite trends. Colombia had only a small share in total intra-zonal imports, showing an increment only in the last years of the decade: 0.2% in 1956 compared to 12.7% in 1960 (see Table 43). This represents approximately 3.4 million dollars more (see Table 42). On the other hand, imports from Ecuador amounted to an average of 250 thousand dollars between 1952-59, the exception was the high value of 3.6 million dollars reached in 1957 (see Table 42). During the post-LAFTA years both countries accounted for nearly 2.3 and 4.3 million dollars in 1963 and 1965, respectively, (see Table 42) which in relative terms represented a share of 3.6% and 5.3% of the total imported from the area (see Table 43). Colombia between 1960-62 was the only LAFTA source of petroleum, but in the following years this high share declined to only two-thirds, although in 1965 it recovered its previous high share. Petroleum and derivatives are the main items imported from Colombia. The Colombian market supplied coffee, tea, cocoa, and spices to Peru, complementing variations in the supply from Ecuador, which is the main supplier of them. Both countries shared 60% and 85% of the total of these products imported from LAFTA in 1964-65.

Intra-zonal imports from Ecuador have been mainly composed of live animals (around 50%) and fruit and vegetables, (around 20%), notably

bananas and oranges, in the 1962-65 period. The Ecuadorian market supplied, in 1964-65, approximately 25% of live animals imports from LAFTA, increasing to nearly a million dollars in those years. In the case of fruit and vegetables the share in 1962 decreased by 10% in 1965. Ecuador's share of crude animal and vegetable materials, went up from only 8.6% in 1963 to 44% in 1965. (See Tables 64 to 69 in the Appendix for the product analysis.)

Trade creation effects are also present in the case of intra-zonal imports from Mexico. We already have seen that this fact was true for exports to this country. According to Tables 42 and 43 value imports have not followed a definite trend in the 1950's in either absolute or relative terms. On the other hand during the post-LAFTA years the prevailing trend was upward. The Mexican share in the total imported from the LAFTA bloc shows an increment of approximately 2% (see Table 43), or 3 million dollars more (see Table 42). It can be stated that these increases are a clear reflection of the concessions granted by Peru for Mexican products. The bulk of imports from this country are not comprised in the twelve SITC categories taken into account in the import analysis but in the group "other" which includes all the other categories. In other words Mexico has become a source for a number of items not traded before LAFTA was organized which represented approximately 90% of the imports from this country in the 1962-65 years. Likewise in the total supplied of "other" by LAFTA, Mexico shared 20% (see Tables 64 to 69 in the Appendix for the product analysis).

Paraguay shows the same small participation in imports that we have already seen in the case of exports. During the pre-LAFTA years no significant imports were present: between 1961-65 they increased by only 360 thousand dollars (see Table 42). The Paraguayan market has been important only for one product, Quebracho tanned leather extract which is included in the SITC category of dyeing, tanning and coloring materials. This product represented more than 75% of the total imported from Paraguay, and within LAFTA this country supplied between 50% (1961-63) and 30% (1964-65). The decrease is in relation with the rise in Argentine imports of this product (see Tables 64 to 69 in the Appendix for the product analysis).

Imports from Uruguay showed higher values in the early years of the decade of the 1950's (see Table 42) but the general trend of the period was an irregular one. During the post-LAFTA years (1962-65) imports from this country increased more than 2 million dollars, or 3% more in its share in total intra-zonal imports (see Tables 42 and 43). In product terms the Uruguayan market was fostered by the concessions granted by Peru. For example, meat and preparations accounted for only 33 thousand dollars in 1962 while in 1965 they reached 2 million dollars. In the LAFTA imports of these products the Uruguayan share increased by 9% between 1964-65 (see Tables 64 to 69 in the Appendix for the product analysis).

f. The Peruvian industry

In any process of economic integration the industrial sector plays a leading role. Nevertheless this importance has to be viewed in terms of its value as an instrument of development for the countries in the developing stage. The high level of industrialization in the developed economies

served as the basis for the economic integration theory originated in Western Europe. But in the case of the developing countries, industry shows characteristics that call for postulates different from those employed in Western Europe. The industry in the developing countries has been oriented mainly towards the domestic market, with only a small part dedicated to exports. On the other hand, excessive protectionism based on incorrect applications of the infant-industry argument has allowed the development of an inefficient industrial sector in most of these countries. The removal of both problems, small sized markets and high protectionism, will result from the effective implementation of the economic integration process, which directly implies wide markets and effective competition between member countries.

Before beginning the analysis of the Peruvian industrial sector it will be important to point out some of its main characteristics. According to official sources¹, the industry grew at a rate of 9.6% during the period 1958-63. This growth slowed down in the following years, reaching a rate of only 7.2% during 1963-65 (see Table 46).

Table 46. Industrial production^a (value in constant dollars of 1963)

Destina- tion	1961			1963			1965		
	Value	Rate of growth 1960-61	%	Value	Rate of growth 1961-63	%	Value	Rate of growth 1963-65	%
Domestic market	871	4.7	78.1	1044	9.5	80.0	1184	6.5	78.9
Export	245	20.3	21.9	261	3.2	20.0	317	10.2	21.1
Total	1116	8.6	100.0	1305	8.0	100.0	1501	7.2	100.0

^aSource: Dirección General de Industrias, Ministerio de Fomento y Obras Públicas, Lima, Peru.

¹Dirección General de Industrias, Ministerio de Fomento y Obras Públicas, Lima, Peru.

Industry was the leading sector of the economy of Peru. Its share in 1960-65 amounted to around 19% of GNP, including "artesanias" (folk-crafts). Nevertheless, the industrial production was mainly aimed at the domestic market. The gross national production of final industrial products accounts for 69% of the market, but if the imported inputs are discounted this share drops to 50%. This situation implies the following: Peruvian industry depends highly upon foreign inputs while the bulk of the production has been absorbed by the domestic market; approximately 80% in the 1960-65 period (see Table 46) compared to only around 20% exported (this includes fishmeal and sugar). Manufactured goods with high aggregate value shared a smaller percentage for export. In terms of employment, the industrial sector utilized around 13.4% of manpower employed between 1958 and 1963 (37).

Peru's industry has faced a number of problems that hamper its ability to compete within the integration process. The main limitations are: i) the rationalization of production; ii) the scale of production and the size of the plants; and iii) obsolescence of the machinery and equipment. The lack of rationalization in the production reflects the high protectionism under which the industry of Peru has developed. On the other hand, the small size of the domestic market has resulted in a low efficiency of operation and high costs of production in most of the industrial branches. Thus, the industry of Peru has been placed in a non-competitive situation in comparison with other LAFTA members. Likewise the possibilities of the wider regional market have not been fully considered. At present, the lack

of an export-financing policy and institutional organisms is hindering the development of this important sector of the economy.

Industrialization in regional terms has to be based on the following facts:

- i) the increase in the domestic demand will not be enough to absorb the high industrial outputs required to achieve external economies and economies of scale to be derived from mass production.
- ii) the competition between the LAFTA members will induce the restructuring of the industrial sector, implying at the same time the breakdown of the protectionist status and a cost reduction as a reflection of the rise in productivity.
- iii) the formulation of policies for industrialization and foreign trade development will have to be established through coordination and harmonization of the individual plans of the member countries and in terms of the region as a whole.
- iv) the participation in benefits to be derived from the regional industrialization must be based on a proportionate share for each member country.

In the LAFTA area, the relatively less-developed and insufficient-market countries (Peru belongs to this last group) have not developed their industry in terms of mass production as required by modern technology. In this sense the promotion of manufactured exports, either from heavy or light industry (which obtains the greater part of its inputs from the first one) have to be based upon high levels of production. The regional market offers a number of possibilities for the accomplishment of an efficient

industrial output. Some of these possibilities are the sub-regional agreements (25), and the reallocation of the basic industrial production (in each country and within the region as a whole). This also implies location agreements about the strategic places in which such industries will be operating.

All these facts call for a rapid restructuring of industry within the LAFTA-member countries, some of which are already expanding production in view of the regional market. Chile for example will increase its steel production from half a million tons, present output, to a million tons in 1970. The basic idea is to supply the market of the zone. In fact no more than 2% or 3% of the total exported by the member countries was composed by manufactured goods. Unfortunately Peru has not started any changes in its industrial structure in reaction to the expanded LAFTA market.

The LAFTA mechanisms provide a number of means with the stated purpose of promoting the industrial development of the region. This is the case of the Complementary Agreements contained in Articles 15 to 17 of the Treaty of Montevideo. Between 1962 and 1965 two agreements have been signed: in July, 1962, about data processing machines and components and parts, and in February, 1964, dealing with valves for radio and television sets as well as their parts and components (27). Peru has not participated in either one.

Other measures for the promotion of regional industrialization have been issued during the first years of the Treaty's operation. In 1966 the IDB created the called Pre-Investment Regional Fund as was suggested by the meeting of the Ministers of Foreign Relations of the LAFTA countries held in 1965. This Fund can be used for multinational projects including

industrial enterprises. On the other hand, Resolution 100 (IV), approved in the LAFTA conference of 1964, provides a number of norms that can be used as a framework for the industrial development of the region (55). Special emphasis is granted to the group of insufficient market countries.

The legal framework within the Peruvian industry has developed is mainly based in two laws (65): Law 9140, issued in 1940, gives the Executive the power to grant import duty reductions for the import of certain inputs used by industry. Unfortunately, this law lacks a comprehensive set of regulations. The other one is the Industrial Promotion Law (IPL), Law 13270, issued in 1959. This was the first legal instrument that grouped all the dispositions about the industrial sector. It provides a number of tax exemptions to those industries that produce items including more than 50% domestic inputs (raw materials, labor force, energy, water, fuel, depreciation of machinery and equipment, etc.). Nevertheless, the scope of this law is very limited in terms of the integration process. The concept of a regional market and an industry organized on multinational basis was not considered when this law was issued.

The application and implementation of both laws is carried out by a number of public agencies including the Council of Industries, which is the highest authority. It was created by the IPL with the participation of delegates from the private and public sectors. Its function is to decide, based on the reports of the Dirección General de Industrias (Directorate of Industries of the Ministry of Public Works), which industries qualify to enjoy the tax exemptions granted by the IPL.

The First Congress of the Manufacturing Industry held in Lima at the

end of 1965 recommended, in one of its resolutions, the unification of all entities in charge of industrial affairs into one organism, the National Center of Industrial Development and Research.¹ Likewise there is an old project for the creation of the Ministry of Industry and Economy. Both cases illustrate the growing importance of the industrial sector and the need for its functional organization.

The promotion of Peruvian industry is also contemplated in other instruments of legislation (42). These are the cases of:

- a) The Industrial Parks, they grant tax exonerations to industries to be established in certain areas of the country as a means to create a kind of pôle de croissance. The parks of Arequipa, Tacna, Huancayo, Cuzco and Puno were created between 1962 and 1965. Each one is regulated by its own law.
- b) In 1965 Law 15600 was promulgated, granting a number of tax exonerations (also import and export duties) to individuals as well as legal persons engaged in different economic activities (agriculture, livestock, forestry, hunting and fishing, and industry) in the Jungle area of the country. The main purpose of this law is to promote the economic development of this region.
- c) Other laws granting tax exemptions to specific industries such as automobile assembly plants, pharmaceuticals, fish, canned fish, tobacco and other industries.

¹Ponencias del Primer Congreso de la Industria Manufacturera. Sociedad Nacional de Industrias. Lima, Peru. Diciembre 1965.

In spite of the existence of the above-mentioned laws for industrial promotion, we have seen that Peruvian industry still faces a number of problems, and its future development is limited by the lack of a coherent industrial policy.

The importance of the integration process plus the internal challenge of Peru's economic development and growth requires the creation of legal mechanisms that will comprise all the existing laws and dispositions, covering the new aspects required by the technological progress of the industry and the economic development of the country. It is clear, for instance, that the existing mechanisms (laws, for example) have not established any concrete guidelines for export industries. Table 46 shows that only 20% of the total industrial production is exported, and only a small proportion of this 20% is composed by manufactured products with high aggregate value. Comparing this situation with that prevailing in other LAFTA members, we find out that most of them have a number of legal and financial instruments to move their industrial sectors toward the export objective, having in view the regional market of LAFTA.

Any comprehensive industrial policy for Peru will have to take into account the requirements for foreign exchange. The promotion of the industrial sector should make feasible the export of manufactured products and the substitution of a number of imports. Both measures permit the gain and saving of foreign exchange. On the export promotion side, the industries already in the export business, and those with potential, lack an export mentality from the entrepreneur's side and suffer from unsatisfactory incentives from the government side. High aggregate values include higher

proportions of domestic inputs such as raw materials, labor skill, national know-how and technique, etc. Thus they represent a significant economic benefit for the country. On the other hand, import substitution requires the promotion of those industries already producing goods that are imported. It has to be kept in mind that an import substituting industry, in the short-run, should become an export industry in the long-run when its level of production exceeds the domestic market.

The issue of such industrial policy has to be based on proper:

- i) technical education,
- ii) identification of a priority order between the branches of the industrial sector,
- iii) institutional and legal framework (laws, entities and organisms, etc.),
and
- iv) financial aims, as well as
- v) market research (foreign markets).

All of them are means to achieve the key objective: high productivity in order to compete in the LAFTA area. Within the general framework of a new industrial policy, for the purpose of this thesis, it is important to stress a little more the aspect of export promotion.

Two main factors have to be considered in order to maintain a competitive level in the industrial production for export purposes: i) cost reduction and ii) export financing. The former one is to be achieved mainly through the rationalization of production, aided by a reduction in some taxes including even export duties and import duties for inputs used by the export industries. Fiscal revenues will not be affected in the short-

run because such exceptions will be over new exports. In this respect the case of the regional industries in the Central American Common Market (63) provides a good example of tax reductions and exceptions for those industries operating and/or those that will be operating for export purposes in terms of the regional market. Export financing is a significant measure for export promotion. It is usually implemented through the granting of short and long-terms credits with low interest rates. This financial support constitutes the last stage in the export promotion program, after all the other measures have made the export feasible.

Finally, any suggested industrial policy should be consistent with the postulates of the Plan of Economic and Social Development for Peru 1967-70. The policy will have to be consistent with the part of the Plan dedicated to the industrial sector. It is stated in the Plan that this sector will have to achieve the following targets (39):

- i) a growth increment,
- ii) higher industrial integration,
- iii) wider geographical location
- iv) higher competitive level, and
- v) promotion of the export industry.

C. Overall Future Perspectives and Policy Implications

The future perspectives of the Peruvian participation in LAFTA are largely based upon two alternatives: the static and the dynamic. The former implies the maintenance of the actual framework of mechanisms of participation. On the other hand, the second alternative involves funda-

mental changes in the legal, institutional and financial aspects of membership, as a part of the whole restructuring of the Peruvian economy in terms of the integration movement. The three aspects already mentioned are the means through which the achievement of objectives will permit the accomplishment of the final end "the contribution of the participation in a custom union to the economic and social development and growth of Peru". This should be implemented through the formulation of a "policy of economic integration".

The static alternative will be treated in terms of the ex-post analysis made in the present work. Peru's participation in LAFTA between 1961-65 has not really affected the economy of the country.

The small effect of the LAFTA membership was partly due to the small share of intra-zonal trade to total trade of the country, approximately 10% (see Table 32). Intra-zonal trade expanded during the post-LAFTA years due to the substantial increment of imports, which grew at 23.6% annual cumulative while exports to the area only grew at 14.4% (see Table 33). Likewise negotiated exports and imports were both very dynamic. This situation resulted in an aggregate import surplus for the 1962-65 period of 30.4 million dollars (see Table 31). It has been argued that such deficit in the intra-zonal balance of trade could be compensated with export surpluses to be achieved by the balance of trade with third countries. Nevertheless, this argument is not valid because the overall balance of trade of Peru will not reach the capacity to absorb the intra-zonal deficits; the projections of the Peruvian foreign trade forecast future deficits in the balance of trade of the country (39).

Some considerations about the future prospects of intra-zonal exports and imports will be stated in the following part. Intra-zonal trade is the most sensitive aspect of an economic integration process in its beginning. Between 1961-65 most of the products exported to the LAFTA area were traditional items that had been traded long before LAFTA was organized. Most of the member countries granted a certain concession over all these products. Likewise it is expected that more import duty reductions will be granted in the future round negotiation. In general terms, the following facts will influence the future development of the Peruvian intra-zonal exports:

- i) increase in the domestic demand of the member countries. Fish products have good expansion perspectives in the Colombian and Mexican markets;
- ii) increase in the degree of self sufficiency of the LAFTA members. The production of petroleum in Argentina is a good example;
- iii) product competition. Chile has increased its domestic production of sugar beet, decreasing the import of Peruvian sugar;
- iv) transportation costs and location. The Argentinean steel plants will be supplied in the future with raw materials from the Bolivian iron ore deposits. They are closer than the Peruvians.

The export scheme also faces a high market concentration. According to Table 37, Argentina and Chile are the main export markets in the area. Let us see now which products show good potential: among the agriculture items, coffee can be exported to Chile in larger amounts if some marketing difficulties are overcome. This country does not belong to the International Coffee Agreement, thus exports of this product are not counted within

the Peruvian coffee quota. Cotton, due to the quality and length of the fiber, can easily compete in the LAFTA market. More than one fifth of total cotton exports went to the area (see Table 48). Fish products are the products with better perspectives. Colombia and Mexico have been absorbing increasing amounts of fishmeal and fish oil, respectively (see Tables 58 to 63 in the Appendix) although both countries still maintain non-tariff restrictions over the two products.

On the import side, as pointed out before, LAFTA is a significant source of edible and food products for Peru. Due to the following facts, a more heavy dependence is expected in the future: i) the concessions that Peru will have to grant, within the LAFTA rules of the game, in the future negotiations, ii) the increasing demand for these products as a result of the demographic growth and the growth and improvement of the income distribution, iii) the lack of a rational program for import substitution together with the time that the implementation of such a program will take.

According to Table 49, in the 1962-65 period, more than 80% and approximately three fourths of the total imported by Peru of live animals and meat and preparations were supplied by LAFTA. Likewise, approximately 95% of the total imported of undressed hides and skins came from the area. Peru will have to depend for a while on LAFTA for the supply of these products because a livestock program is a long-term measure. On the other hand, it is expected that in the coming years the LAFTA zone will increase its supply (to Peru) of cereals and preparations above the actual level of 50%. The bulk of this group is composed of Argentine wheat, a product in which Peru is a net deficit country. Fruits and vegetables imported

Table 48. Participation of Peru-LAFTA basic export products in Peru's global exports^a (in percentage)

Product	1960	1961	1962	1963	1964	1965
Coffee	0.1	0.6	0.1	0.3	0.2	0.2
Cotton	13.8	20.6	24.7	19.1	23.5	30.3
Sugar	9.6	-	-	14.8	27.4	10.0
Wool	0.4	0.5	0.7	0.6	0.9	1.0
Fishmeal	2.5	2.4	2.1	2.6	3.0	4.1
Fish oil	-	-	1.9	8.7	10.2	12.5
Crude petroleum	50.3	42.4	34.7	49.0	32.9	43.8
Copper	0.1	1.1	5.5	4.0	1.6	0.2
Iron ore	2.1	2.2	6.4	2.1	3.9	0.5
Lead	2.0	4.5	7.5	9.1	3.5	2.1
Silver	-	0.2	1.0	1.5	2.8	1.3
Zinc	2.3	4.3	24.2	20.0	16.6	13.2
Other	28.1	16.6	16.1	16.2	13.9	12.9
Total	7.7	6.4	9.0	9.1	9.7	8.1

^aSource: Table 38 and (38).

from the area, with Chile as the main supplier, have increased their share 23% between 1962 and 1965 (see Table 49).

Consistent with the dynamic nature of the economic integration process the Peruvian participation should be approached in dynamic terms. Such a dynamic approach has to be preceded by a short-run strategy to be formulated

in view of the future yearly negotiations, the Common Schedule to be set up in 1967, and while the policy of economic integration of Peru is implemented. It has to be pointed out that other LAFTA members grant concessions in terms of a tariff reduction and removal of restrictions while Peru, due to its free trade policy, can use only the tariff reduction for the accomplishment of the LAFTA rules of negotiation. In such a situation Peru's bargaining power in the negotiations is very weak. Given the lack of an economic integration policy, the formulation of such a policy will have to be the basic step towards the dynamization of the Peruvian participation. Likewise the almost irreversible nature of the integration movement supports such requirement even more. The formulation of the mentioned policy should take into account the following means: i) Legal: regarding the Peruvian industry, the need for an industrial policy has been noted. The issue of an Industrial Law will have to be the basic legal aim. Likewise the formulation of an Export Promotion Law will complement the growth of the industrial sector. This instrument will open the foreign markets for the mass production to be started by the expanded industry. ii) Institutional: the integration process should be approached primarily in economic terms. Research in this field will have to be carried on in order to derive the economic alternatives to be taken in policy formulation. There is a lack of an institution completely dedicated to the analysis and research of the Peruvian participation in LAFTA within the whole framework of Peru's foreign trade. In this sense the creation of the Council of Foreign Trade and Integration is the most significant achievement in this matter to date. Nevertheless, the lack of financial as well as technical

Table 49. Participation of Peru-LAFTA basic SITC import category in Peru's global imports^a (in percentage)

SITC Category	1960	1961	1962	1963	1964	1965
00 Live animals	12.7	10.7	63.7	95.4	86.4	83.5
01 Meat and preparations	54.4	70.7	74.0	78.8	74.3	72.0
04 Cereals and preparations	42.2	36.9	50.4	72.1	61.4	60.0
05 Fruit and vegetables	41.0	46.2	42.1	49.8	56.0	67.5
07 Coffee, tea, cocoa and spices	54.2	41.5	40.4	25.1	13.2	42.3
21 Hides and skins, undressed	76.7	83.9	94.3	93.9	99.7	92.6
29 Crude animal and vegetable materials, N.E.S.	20.4	59.9	75.0	56.2	47.8	12.5
33 Petroleum and derivatives	18.2	22.6	24.4	9.0	13.7	9.0
41 Animal oils and fats	-	26.4	-	8.2	-	-
42 Fixed vegetable oils	0.2	24.5	-	0.5	0.1	28.7
53 Dyeing, tanning and coloring materials	16.9	11.3	15.8	12.1	16.7	18.5
56 Fertilizer, manufactured	1.5	0.8	1.2	1.3	1.3	1.5
Other	1.4	1.3	1.3	1.6	2.1	2.7
Total	7.3	6.8	8.4	11.1	10.1	11.1

^aSource: Table 43.

support has relegated this institution to exercising mainly administrative functions.¹ iii) Financial: constitutes one of the most important measures to be taken. The promotion of intra-zonal exports and a program of import substitution needs financial support. The former through the creation of a Fund for the export of manufactured goods, for example. Likewise different credit lines (long and short-terms) should be established for the other branches of the export sector.

Putting these three means into operation will permit the achievement of the policy objectives. Four objectives are accounted as the most important ones: i) Education: the knowledge of the integration process, emphasizing the case of LAFTA. Peru has signed a resolution in the Conference of Foreign Ministries held in 1965 by which every member country will have to start teaching the field of economic integration at different levels: school, university, entrepreneurs and labor unions. The building of an "integration mentality" is the main purpose of such programs. ii) Import Substitution: as we have seen in the previous analysis, Peru's import scheme comprises a significant amount of edible and food products, having the LAFTA area as its main source of supply.

Such a program will comprehend manufactured as well as edible and food products. In other words, it will cover all the import items feasible for domestic production. Edible and food products can be produced in the country in sufficient amounts through the promotion of the agricultural sector, which is a long-term measure. Future agriculture production in the LAFTA area will have to be located according to the factor endowment of each member

¹Diario Oficial El Peruano, Resolución Suprema No. 204 del 31 de Marzo de 1967. Lima, Peru, 13 de Abril de 1967.

country, thus the low productive areas will be diverted into other crops or kept frozen at present levels. Good examples are the wheat production in Argentina and Uruguay, cotton in Peru and Mexico, Quebracho in Paraguay, etc. iii) Export diversification: Peruvian intra-zonal trade has been mainly concentrated in two members: Argentina and Chile. Both of them have absorbed and supplied approximately 70% and 80% of total intra-zonal exports and imports, respectively (see Tables 37 and 43). Likewise, in product terms, exports to LAFTA have not been diversified; cotton, sugar and fishmeal comprised the bulk of them (see Table 38). In the case of imports they depended heavily on wheat, live cattle and beef (see Table 44). The breakdown of this undiversified situation will be the main purpose of the following program. iv) Export promotion: which is in close relation with the preceding objective, perhaps is the one that will play the key role within the dynamic approach of the Peruvian membership. It is also an objective stated in the Plan of Economic and Social Development of Peru 1967-70 (39). Export promotion implies diversification in product as well as in market terms. Any program of this kind is based on a whole framework that makes the selling abroad feasible. Its implementation requires legal, institutional and financial means. Concrete measures like fiscal incentives (tax exemptions for exports and promotion of export industries) and credit lines (long and short-terms) should be taken as first steps. A program of export promotion could partly help to offset the import surplus showed by the intra-zonal balance of trade. Likewise from the static point of view, trade diversion effects, always present in the early stages of a process of economic integration, can be largely compensated by

the trade creation effects to be generated by the promotion of new export products and the concessions to be obtained over such new items from the LAFTA member countries in the future round negotiations. Finally, if this promotion program will also influence the generation of export surplus aimed at the deficit in the intra-zonal balance of trade, it could be stated that a sound result has been accomplished by the program of export promotion.

The following part will deal with some aspects about the formulation of such program as well as the listing of some key products that could be included in the program. In 1965 ECLA sent an advisory group with the purpose of studying the possible future products feasible for export to the area. On the other hand the LAFTA Executive Committee established a working group (Resolution 90) to study the situation of the insufficient market countries, to which Peru belongs. This group visited Peru in the middle of 1966, having in mind the following objectives: i) to promote the use of the concessions already granted to Peru; ii) to identify those concessions with small scope and those that could be removed in future negotiations; iii) to determine those products over which Peru could ask a concession in future negotiation; iv) to identify those products in which Peru has a comparative advantage and export possibilities for the LAFTA area.

Based on the recommendations of both advisory groups, plus the suggestions of some public and private institutions, the following list of products was designated as the most important ones:

- a) Canned fruits such as mango, pineapple, marañon, cocona, aguaje, maracuya, tumbo, etc.; fruit juice.
- b) Protein concentrate: fish (71) and cotton seed (in raw form and

manufactured in noodles, crackers, soups, etc.)

- c) Quinoa and Cañihua products: flour, flakes and concentrate foods.
- d) Pisco (40).
- e) Dried food products: garlic and onion powder, shrimp powder, etc.
- f) Tubers products: potatoes (alcohol and starch), cassava (starch).
- g) Citrus products: essential oils (orange, grapefruit, tangerine and lemon).
- h) Fish and marine products: canned trout and sea fish, processed seaweed (agar-agar).
- i) Textile products: alpaca and other auchenidae fiber, cotton (extra-long fibers as Pima, Karnak and Cerro), jute, (41) synthetic fibers (acrilic, polivinyll, etc.)
- j) Handicrafts: Artesan products.
- k) Parts for the vehicle assembly industry: glasses, electric batteries.
- l) Fish industry products: vessels, machinery and equipment for fishmeal plants, rubber products, fishing nets.
- m) Fertilizers: phosphates and products from petroleum natural gas.

V. SUMMARY AND CONCLUSIONS

Economic integration has grown out of different circumstances in different parts of the world. In Western Europe, for example, political considerations led to economic integration. In the newly independent countries of the so-called underdeveloped world, economic problems were the determinant factors inducing economic integration. The last two decades have witnessed the emergence of economic integration as a new branch within the scope of international economics.

The developed and the developing world have begun to utilize this new field as a means solving their problems within the framework of world affairs. Among the developed nations, the Western European countries have been grouped into two forms of economic integration: the EEC and EFTA. Both of them are seeking to maintain a sustained economic growth and to raise their bargaining power in world affairs to the level of the USA, the USSR, and the COMECON.

On the other hand, in the case of the developing countries the picture is quite different. A number of nations in Africa and Latin America were just leaving the stage of political instability when they achieved their independence; then, as a later step, economic growth and development became the leading issue in all of them. Likewise, as in the developed world, the bargaining position of these nations as single units was too weak to have any influence in the framework of world trade and affairs. Thus, both problems have accelerated the adoption of economic integration as a fashionable means for their solution.

In recent years there has been strong tendency in the less developed countries towards integration. Different forms of economic union have been organized among these nations: the East African Common Market, the Arab Common Market in the Middle East and the CACM, LAFTA and the Caribbean Free Trade Area (CARIFTA) in America are examples of such attempts at economic integration. Other forms of world integration that have taken root in recent decades are: the GATT and the Informal Group of the 77 Countries which participate in the formulation of a common trade policy for the developing countries that belong to the UNCTAD.

It has already been noted in this thesis that the theoretical framework of economic integration was well stated in 1960, when Jacob Viner wrote his book "The Custom Union Issue". This framework involves the use of the so-called classical postulates of economic integration. All of them were stated in static terms. In the late 1950's, when the EEC was organized, the theoretical framework of economic integration was applied to the reality of this area and then readjusted to its continuing development. It is important to point out that all of the members of the EEC had already achieved a high degree of economic development and sustained growth before they were organized into a customs union.

Unfortunately, all of the classical postulates do not always have such practical applicability for economic integration in underdeveloped areas. The countries comprising these areas face a completely different situation than that of the developed areas. The developing countries are (a) competitive in the production and export of raw materials, (b) most of them are small-sized nations, (c) their transportation and other infrastructure are poor, and (d) they tend to engage in a highly protected external trade with

a small volume of intra-regional trade. All these characteristics call for a different form of the theory of economic integration when applied to less developed regions. So far many attempts have been made to create a functional theory of custom unions applicable to these regions, and it is expected that such attempts will be further elaborated in the near future.

In this state of affairs economic integration will have to be considered as a promoting mechanism in order to achieve the economic and social development and growth of these areas. In other words, the changes in the economic structure of underdeveloped areas induced by economic integration, and the accompanying welfare gain and benefit achievements, will appear as post-integration effects. Nevertheless, when evaluating a customs union constituted by developing countries, some of the postulates of the classical theory of economic integration may still be utilized.

Consistent with the limitations of the theory of economic integration, Chapter III of the present work treats the case of LAFTA mostly in terms of dynamic events (foreign trade for example) rather than in static terms. In this chapter it is stated that economic integration in Latin America has had its roots in the post-independence years, but the idea of that time was mainly based on political issues rather than economic problems. However, in the last two decades the economic problems of the region became the major ones. The aspirations towards integration began in the early 1950's, but no suitable form of economic integration existed at that time. According to the classical theory of economic integration, none of the characteristics of Latin America fit within the accepted desirable postulates. Nonetheless, the economic problems of the region were increasing in such magnitude that

different solutions were looked for. In this state of affairs economic integration was chosen as an alternative.

The achievement of a sustained economic and social growth and development as well as the enforcement of the Latin American power of negotiation in world affairs were the main objectives for the organization of a customs union. The realization of these targets was complicated by the following problems: deterioration of the general external conditions (commodity and geographical concentration), overdependence upon foreign exchange earnings, decline in intra-regional trade, demographic explosion and poor communication systems. Regional secretariats of international institutions (e.g. ECLA), have been concerned with the economic and social development of the region. After a number of meetings and consultations held by ECLA and other international institutions, in order to define the way in which regional economic integration should be implemented, general opinion favored the establishment of a free trade area, which would later evolve into a regional common market. Finally, on February 18, 1960, the Treaty of Montevideo was signed by Argentina, Brazil, Chile, Mexico, Peru, Paraguay, and Uruguay. Ecuador and Colombia joined the Association in 1961, and Venezuela and Bolivia did the same in 1966 and 1967 respectively.

The means considered in the Treaty of Montevideo have different weights as pertains to creating an effective economic union. The gradual removal of trade barriers (quantitative and qualitative) as a way to promote intra-regional trade, and the implementation of appropriate measures favoring relatively less developed countries and countries with insufficient markets are accounted among the most important means. The provisions granting special

status to certain groups of countries reflect the basic aim of the Treaty to assure an even share of benefits to all the partner countries.

Intra-zonal trade liberalization was to be implemented over the course of a twelve year period through the operation of the systematic tariff reductions defined in National and Common Schedules. Between the signature of the Treaty (1960) and 1965 six rounds of negotiations have been held in different capitals of the member countries, and the first negotiation for the Common Schedule took place in 1964 in Bogota. The second Common Schedule negotiation is due to be held in 1967 in Montevideo. In some of the annual negotiations the average tariff reduction conceded by the member countries largely exceeded the 8% of the weighted average applicable to third countries which is required by the provisions of the Treaty. Although most of the concessions were granted for traditional primary products, which is no more than safeguarding the channels of intra-regional trade already in existence before LAFTA was organized, it has been reported that 10% of the concessions granted in the fifth annual negotiation (1965) corresponded to manufactured items such as machinery and electrical materials, a significant improvement. Another important aspect within the trade negotiations is that some members can grant non-tariff restrictions (such as licensing, quota restrictions, etc.) as concessions. This situation establishes a tacit disequilibrium in the bargaining power of the participant countries, considering the heterogeneous systems of import duties and other restrictions that each one maintains.

All these circumstances have not affected the fact that negotiated intra-zonal imports have followed an increasing trend in their participation in total intra-LAFTA trade. This increase was from 77% of the total value

in 1962 to 89% in 1964 (data for 1965 is not yet available). In other words this represents 40% more trade in negotiated products in 1963-64 than 1962-63.

The lack of dynamism in the LAFTA negotiations could be blamed in large measure upon the product-by-product system of negotiation of tariff reductions. The across-the-board system was first proposed, as an alternative method, at the meeting of Ministers of Foreign Relations held in Montevideo in 1965, although it was not approved at that time.

In terms of institutional achievements, the creation of the Council of Ministers of Foreign Relations in 1965 has been the most important step. The main idea that supported such creation was the necessity to have an organ, within LAFTA, empowered to make Council decisions at the highest political level.

One of the main aims of a customs union is to attract regional and foreign investment into the area to be integrated. It has to be admitted that in the case of LAFTA, domestic businessmen have not shown much willingness to commit their own capital into regional ventures. Nevertheless, most of the international firms already have their permanent representatives of LAFTA's headquarters with the purpose of following LAFTA developments. In the course of our analysis we have already mentioned some of the most important private and public regional investments. Perhaps the most important steps in the field of public investment in the LAFTA region have been the creation of a Pre-Investment Fund and the implementation of the Integration of Border Areas. The Pre-Investment Fund was established by the IDB in 1966, amounting to 16.5 million dollars and the Colombian-Venezuelan

and the Colombian-Ecuadorian are the two border programs in operation up to now. The monetary and financial issues are matters of great influence upon the economic integration process. The Treaty of Montevideo lacks guidelines in this field. Nevertheless, two positive measures have already been adopted. In 1964, the IDB created a Revolving Fund of 30 million dollars to finance intra-regional exports of capital goods through the granting of medium term credits to the LAFTA manufacturers and exporters. The other measure was the creation of the so-called "Multilateral Mechanism of Compensation and Reciprocal Credit" (MMCRC). This instrument entered into force in 1966. It establishes bilateral credits to be utilized by the participant countries. Both measures have dynamized intra-LAFTA trade.

The analysis of the changes that occurred in the trade between the LAFTA members is at the same time one of the most important and most simple measures of LAFTA's progress. Measured by this yardstick, the postulates of the classical theory of economic integration have failed. Although intra-zonal trade before LAFTA was organized amounted to only around 10% of the global trade of the region, in the post-LAFTA years intra-zonal trade increased in relative and in absolute terms. These increments are even higher than those shown by the EEC and EFTA. During its first four years of operation, LAFTA's intra-zonal trade increased 113% by value, compared to 67% and 50% for the EEC and EFTA.

Intra-zonal trade has developed in the following way during the periods taken into analysis. In the pre-LAFTA years (1950-1961) trade between the actual member countries operated within a network of bilateral trade and

payment agreements. Intra-zonal trade had grown negatively (0.9% per annum) during this period. On the other hand the significant increase that took place in the post-LAFTA (1961-1965) period could be partly due to the trade liberalization. During this period intra-zonal exports and imports grew at nearly 21% while extra-zonal and overall LAFTA trade only grew at 1.9% and 3.4%. This fact indicates that intra-zonal trade was the most dynamic component in LAFTA's overall trade.

The entry into force of the Treaty of Montevideo has been followed also by a substantial increment of the intra-zonal trade for some member countries. Mexico and Colombia, for instance, practically gained a new market when they started trading with the other LAFTA countries. Both of them more than doubled their share of intra-zonal trade in their global trade. The relatively less developed countries, together with Mexico, are the only members of LAFTA that have achieved export surpluses during the post-LAFTA period. In the case of Ecuador and Paraguay, the special concessions granted to them could partly explain the leadership of their intra-zonal exports. Although Ecuador holds the lowest share in the LAFTA trading scheme, its trade with the area doubled from 1962 to 1965. Paraguay's intra-regional trade represents more than one fourth of its global trade. This country has traditionally maintained a substantial trade with its neighbors Argentina and Brazil, due to its condition as a land-locked country. Argentina, Brazil and Chile are the main traders in LAFTA. This also explains why the first two have accounted for more than 30% of the cumulative total concession between 1961-65. Likewise the three of them accounted for more than 50% of total LAFTA exports and imports in the 1962-65 period.

The implementation of a free trade area in a developing area such as LAFTA faces a number of problems and limitations.

Considering that the final goal of the integration movement in Latin America is the building of a Common Market, and perhaps a full Economic Union later on, the Treaty of Montevideo is only the basic framework which gives the necessary provisions for the implementation of the Free Trade Area until its full functioning in 1972. This helps to explain some of the vague statements and inconsistencies to be found within the Treaty. On the other hand, the rigid application of some of the provisions of the Treaty would disregard the heterogeneous degrees of economic development of the participant countries. For instance, there is a kind of latent conflict between the Most-Favored-Nation-Treatment-Clause of the GATT and the special status granted to the Relatively Less Developed Countries and Insufficient Market Countries; the concessions granted under the Complementary Agreements contemplated in Articles 15 to 17 of the Treaty could not be extended to other member countries, contrary to the GATT clause.

A sound evaluation of the benefits achieved by each LAFTA participant is a complicated and difficult task. Nevertheless, based on the available information, some useful inferences can be made.

In an oversimplified analysis, one may conclude that the benefits from trade liberalization have not been as even as expected. The higher level of industrialization of Argentina, Brazil and Mexico has permitted these countries to share more benefits than the other members. Argentina and Mexico showed a net export surplus in the 1961-65 period. Likewise the so-called "Southern Countries", Argentina, Brazil and Chile have represented

over 70% of intra-LAFTA trade. Of the remaining 30%, Colombia, Peru and Uruguay maintained import surpluses while Ecuador and Paraguay showed favorable intra-zonal trade balances mainly due to the special status they enjoy under the Treaty.

In general terms, the increasing proportion of non-traditional items in the scheme of intra-zonal trade plus the readjustments in the implementation of the LAFTA mechanisms indicate that economic integration is accomplishing its objective to foster and promote foreign trade in terms of intra-regional trade, considering the important role that foreign trade plays in the development of an underdeveloped region. In country terms, the negotiation between the different LAFTA members will result in the granting of mutual tariff reductions, but no country can be entirely certain the concessions that it grants will be equivalent to the concessions that it will receive. The different economic situation of each member of LAFTA (height of import duties, degree of development, non-tariff barriers, etc.) will not permit, at least in the short run, the achievement of equitable benefits by all. Nevertheless, over the long-run, short-run disparity in benefits and even losses, where they may occur, will be converted to a more even distribution by the readjustments generated through economic integration. Finally, a balanced economic and social development and growth within LAFTA will depend very much on the degree to which domestic monetary, fiscal, and economic policies will be successfully coordinated among the partner countries in the coming years.

The implementation of economic integration in a developing area like the one comprising LAFTA has to follow a dynamic path. Consistent with this fact, the mechanisms of the Treaty of Montevideo will have to be

gradually readjusted and/or changed in accordance with the requirements of new events and the process of development of the economies of the member countries. It has to be recognized that since 1960 the member country representatives, the LAFTA Secretariat, and the technical staffs of other regional institutions have tried to apply the provisions of the Treaty of Montevideo in the most functional way.

Foreign trade has played a very important role for the Peruvian economy between 1950 and 1965. The export sector became the leading sector in the economic growth of the country during the 1955-65 decade. The tremendous expansion of the export sector has been translated into a high income growth and balance of payments strength. The dynamic development of Peru's foreign trade was mainly due to the export products diversification that has taken place since the middle 1950's.

Although the general trend of foreign trade showed great dynamism with consequent benefit for the economy of the country, the Peruvian participation in LAFTA, as an important aspect within Peru's foreign trade since 1960, has not shown the same dynamic path of the overall trade. So far, LAFTA membership has not given Peru the benefits it might have expected from a process of economic integration.

After four years of operation (1961-65), LAFTA had not significantly affected the Peruvian economy. Although there are not many tangible benefits received from the membership, a comparison between the pre-LAFTA (1950-61) and post-LAFTA (1961-65) periods throws some light on the achievements obtained from LAFTA in terms of intra-zonal trade. The present LAFTA area was an important trading market for Peru in the early 1950's, but its

high share started to decline towards the end of the pre-LAFTA period (1961). The USA and the European markets like the EEC and EFTA absorbed the loss in LAFTA's participation. On the other hand, the domestic supply in the LAFTA member countries increased very much, reaching in some of them a level of self sufficiency in certain products. Exports to LAFTA grew at a lower rate than imports. In spite of this fact the intra-zonal balance of trade showed export surpluses in the decade of the 1950's.

In the post-LAFTA period, the change that took place after the entry into force of the Treaty of Montevideo (1960) was reflected in a recovery in both intra-zonal exports and imports, in absolute as well as in relative values. This recovery tendency of the post-LAFTA years was mainly based on two factors: the trade liberalization induced by the LAFTA concessions, and the natural increment in Peru's foreign trade, due on the one hand to the increase in the domestic demand as a consequence of its economic growth and on the other hand caused by the increment in the export production (fishmeal, copper, etc.) of some products. In this period exports to LAFTA declined its share in the total exported to only 8.1%, while imports from the zone accounted for approximately 11% between 1963-65. Likewise intra-zonal imports grew at 26.3% compared to only 14.4% of its counterpart, intra-zonal exports. At this time the balance of trade with the area became negative. The aggregate value for the 1961-65 period shows an import surplus of 40.7 million dollars.

With regard to negotiated and non-negotiated intra-zonal trade, we draw the following conclusion: Both negotiated exports and imports shared the highest proportions of intra-zonal exports and imports. Nevertheless

Peru, due to its low export diversification, is apparently only utilizing the LAFTA concessions granted over the so-called traditional export products, while the other member countries are making use of most of the concessions included in the Peruvian National Schedule.

In terms of the classical theory of economic integration, Peru's intra-zonal trade shows very few cases of trade creation. Fishmeal and fish-oil exports to Mexico and Colombia are good examples of the former and perhaps some imports from Mexico can be also quoted. On the other hand, the increment in cereal, meat and live animal (beef and mutton) imports from Argentina and tanned natural leather products from Paraguay represent neither trade creation nor trade diversion. Considering that Peru does not produce tanned natural leather products and it is a country deficient in meat and cereals, the increment in the import of these products seems to have been mainly a desirable increase from efficient sources of supply rather than a change from non-member countries.

Peru's exports to the area went mainly to Argentina and Chile during the pre- and post-LAFTA years. These countries bought more than 65% of the value of Peru's intra-zonal exports. Intra-zonal exports were influenced by the LAFTA negotiations in the following way: since 1962, the first year in which the concessions entered into force, most of the products traditionally exported by Peru were gradually granted a certain kind of concession during the following round negotiations (tariff reduction, licensing requirements, etc.). In this state of affairs the concessions scheme widened to the point in which eleven out of the twelve traditional products were exported in 1965 under the status of negotiated items. As a consequence of this, negotiated products have increased its share in total intra-zonal ex-

ports and non-negotiated ones have followed the opposite trend.

Among the agricultural group of products, cotton exports to the area represented around 20% in 1962-64, sharing as high as 30% in 1965 of total cotton exports. This product has represented approximately 15% of Peruvian global exports between 1961-65. LAFTA (in fact solely Chile) has been a traditional market for sugar, but in recent years this product has dropped its share in total exports (1960-65) by one half. Now the area only buys 10% of the total sugar exports (1965), and this product is decreasing its share within Peruvian total exports. Fishmeal and fish oil, even though they have small shares in intra-zonal exports, are increasing their importance as export products to the LAFTA bloc. For example fishmeal doubled its share during that period, and fish oil increased from 1.9% to 12.5%. The importance of fishmeal as an export product for Peru is well known and it represented 23.4% by value of global exports in 1965.

In the mining group 13% of zinc exports went to LAFTA, and half of crude petroleum exports were bought by this area. This latter product has been sharply decreasing in importance as an export item, but zinc still shares approximately 5% of Peru's global exports.

Imports originated in the LAFTA bloc have been much more dynamic than exports. The rising trend started in 1958 reached its upper peak in 1965, when intra-zonal imports amounted to 80.9 million dollars (the highest value ever reached by imports from the area). Argentina and Chile have been the most important import sources in LAFTA since the early 1950's. During the 1950-65 period they shared approximately 80% by value of intra-zonal imports. Most of the imports from the area were composed of negotiated

products. Nevertheless, negotiated and non-negotiated imports followed just the opposite trend in terms of their respective shares in intra-zonal imports. The latter increased from 12.1% to 21.9%, while the former dropped from 87.8% to 78.1% between 1963-65.

LAFTA has been primarily a source for edible and food products for Peru. Included in the SITC categories that comprise foodstuffs (00,01, 04,05,07,41 and 42), they represented between three fourths and one half of the total imported of these categories by Peru. For example around 80% of live animals, more than 70% of meat and preparations (beef in particular), and approximately 60% of cereals and cereal preparations (especially wheat) were supplied by LAFTA. This last category alone represents approximately 8% of Peru's global imports. Likewise these three categories accounted for more than half of intra-zonal imports. Finally more than 60% of Peru's total imports of fruits and vegetables and a substantial amount of undressed hides and skins (nearly 95%) came from the LAFTA area. Nevertheless, manufactured and semi-manufactured products (comprised in the 5, 6, 7 and 8 SITC Sections) that comprise the bulk of Peruvian global imports are only traded with the LAFTA area in a very small proportion.

Peruvian industry operates within a framework of high protectionism, undercapacity of production and high production costs. In other words through the existing protectionism, most of the industries have concentrated only on the domestic market, based on the fact that potential export industries are almost lacking in ample domestic capital investment (a notable part of the investment depends upon foreign sources), the appropriate management (entrepreneurs and staff with an industrial base in engineering),

and an export mentality among the entrepreneurs.

On the other hand, it should also be mentioned that the incentives given by the public sector are out of date. The Industrial Promotion Law and the other related regulations only have a few specific guidelines regarding either the export industries or industrial programming in terms of the LAFTA market. The achievement of a high level of industrialization is an effective means through which Peru can share more stable benefits from economic integration. This is why a serious attempt towards industrialization should be promptly started, beginning with the formulation of an "industrial policy".

Peru has not yet obtained any tangible benefits from its participation in LAFTA. Perhaps the only relative achievement that could be taken into account is the relative expansion of its intra-zonal trade. In general terms it can be stated that after five years the LAFTA membership has neither contributed nor affected the economy of the country.

Consistent with the ex-post nature of the analysis undertaken in the present work, and based on the events occurring in the two periods, we can draw some inferences about the future development of the Peruvian participation and the benefits to be obtained from it. Static and dynamic assumptions should be taken into account in order to make such inferences.

Under the static assumption the Peruvian participation will follow the actual status of memberships without any change in the provisions that regulate the partnership.

The following outcomes are expected from the Peruvian intra-zonal trade if the same status of membership prevails. Intra-zonal exports are already becoming more concentrated upon the so-called twelve traditional export

products. These products grouped in agricultural, fish and mining have represented an increasing yearly share in the post-LAFTA period, while other exports dropped its share (it comprises non-traditional exports).

On the other hand, we already know that foodstuffs represent a considerable part of intra-zonal imports and that they will grow at least at the rate of the population increase. Imports constitute a rigid variable within the framework of the intra-zonal balance of trade, because the LAFTA mechanisms require the partner countries to grant tariff reductions in each annual round negotiation, and most of the food products imported from the area have already been included in the Peruvian National Schedule.

The expansion of Peru's trade with the area will occur as a consequence of the entering into operation of the "rules of the game" of LAFTA. On the one hand, the future annual round negotiations (concessions over imports) and the second Common Schedule to be negotiated in 1967 are factors that should foster this expansion greatly. The high levels to be reached by intra-zonal trade will be immediately reflected in a higher share on Peru's global trade, thus the effect of future possible import surpluses in the intra-zonal balance of trade will be more significant. Likewise, there will also be an effect on the already expected negative balance of trade of Peru.

From the above analysis it can be inferred that the Peruvian participation lacked an export and import market diversification, showing at the same time an export concentration in the so-called traditional products as well as a heavy dependence on food and edible imports from LAFTA. If this situation is projected into the future without any substantial changes in the way the participation is approached, the membership would not lead to

the achievement of short and long run benefits expected from a custom union.

Economic integration in developing regions is synonymous with dynamism. In this sense the implementation of an economic integration policy would be the step that would further induce the required structural changes in the economy of the participating countries. In the case of Peru, its membership will have to be approached in terms of economic as well as social and political measures. In other words, a "defined policy of economic integration" must be the basic framework in order to make the Peruvian membership fruitful.

Analyzing the exact position of Peru in terms of an economic integration policy, we found that such a policy does not exist. Each year the National LAFTA Commission elaborates the National Schedules to be submitted to the annual negotiations. But, beyond this, it can hardly be said that there is any coherent and unified strategy followed in the negotiation rounds. Likewise, the economic sectors of the country have been operating with a number of incentive mechanisms; the Industrial Promotion Law, the Mining Code and others, but none of these displays any guidelines in terms of their adjustment to the mechanisms and norms of LAFTA.

The existing LAFTA National Commission and its successor, the newly created Council of Foreign Trade and Integration, up to now mainly have been concerned with administrative functions without complementing these with the urgently required research designed to improve the benefits from the Peruvian membership. This lack of functionality is mainly due to the number of legal, institutional and financial limitations.

It is important to consider that within LAFTA, Peru is the country that follows a rather liberal policy in terms of foreign trade (only until 1967). It still maintains the lowest import duties within LAFTA with almost no non-tariff restrictions. In this state of affairs the bargaining position of Peru is a very weak one. While other member countries can grant the removal of qualitative restrictions such as quotas, previous licenses, etc. as concessions, Peru has to lower its import duties, as its only bargaining instrument of foreign trade, in order to fulfill the requirements of each round of negotiations. The "policy of economic integration" would be implemented through the putting into operation of legal and institutional, as well as financial, measures.

Export products concentration can be overcome with an export promotion program and the increasing imports from the area could be cut down to some extent by import substitution. Likewise, an export promotion program would also imply a diversification of the export structure through the market possibilities of the other member countries.

Together with these objectives, the widening of knowledge of the integration movement in Latin America, emphasizing the objectives of LAFTA, is of vital importance. It has been suggested that a number of courses about these topics should be organized at different levels: school, university and even labor unions. Such a program would create in all the different sectors of the country the wide support that is required in order to effectively implement the Peruvian participation in LAFTA.

The benefits to be obtained in dynamic terms from LAFTA will be generated after the application of the mechanisms stated in the "policy of economic integration". The market and product expansion of the intrazonal trade would help to turn the Peruvian partnership into a more profitable one, contributing to the social and economic development and growth of Peru.

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VIII. APPENDIX

Table 50. Intra-LAFTA trade - 1960^a (thousand dollars, exports and imports F.O.B.)

	Imports									
Exports	Argentina	Brazil	Chile	Colombia	Ecuador	Mexico	Paraguay	Peru	Uruguay	LAFTA
Argentina		82837	41673	262	58	760	851.8	15464	12901	162473
Brazil	56392		11551	253	41	189	995	371	16597	86389
Chile	17880	5814		998	701	371	51	3350	1066	30231
Colombia	142	48	958		370	71	-	3245	14	4848
Ecuador	24	2	2006	2414		16	8	196	7	4673
Mexico	631	1214	1349	1243	434		27	700	142	5740
Paraguay	7652	80	-	-	-	-		1	1166	8899
Peru	9466	2115	16522	771	3132	805	8		667	33486
Uruguay	2369	307	256	137	126	10	139	85		3429
LAFTA	94556	92417	74315	6078	4862	2222	9746	23412	32560	

^aSource: (4).

Table 51. Intra-LAFTA trade - 1961^a (thousand dollars, exports and imports F.O.B.)

	Imports	Argentina	Brazil	Chile	Colombia	Ecuador	Mexico	Paraguay	Peru	Uruguay	LAFTA
Exports											
Argentina			26781	43012	318	68	1147	8670	14243	5791	100030
Brazil	67426			8765	1148	73	218	575	1238	15755	95198
Chile	23171		6282		273	478	268	25	2863	1434	34794
Colombia	179		215	297		1215	220	-	3902	71	6099
Ecuador	53		-	2468	4493		67	4	361	11	7457
Mexico	1131		1807	1490	1761	604		33	839	214	7879
Paraguay	8721		68	-	-	1	-		2	1096	9888
Peru	8153		3820	14364	946	1912	912	17		1424	31548
Uruguay	1830		1842	774	538	146	33	520	145		5828
LAFTA	110664		40815	71170	9477	4497	2865	9844	23593	25796	

^aSource: (4).

Table 52. Intra-LAFTA trade - 1962^a (thousand dollars, exports and imports F.O.B.)

Imports Exports	Argentina	Brazil	Chile	Colombia	Ecuador	Mexico	Paraguay	Peru	Uruguay	LAFTA
Argentina		68454	31750	2286	93	954	5492	25645	6740	141414
Brazil	48453		9348	156	27	303	2110	1243	14126	75766
Chile	14858	18513		663	454	682	30	3121	1062	39383
Colombia	692	15	990		1502	108	15	3841	143	7306
Ecuador	198	2	2263	3107		-	1	514	2	6087
Mexico	2260	7597	2340	1654	649		15	1650	519	16684
Paraguay	9611	108	22	1	-	1		-	1147	10890
Peru	8260	11073	23665	1000	1527	1794	8		1449	48776
Uruguay	1625	3006	925	1983	133	36	226	81		8015
LAFTA	85957	108768	71303	10850	4385	3878	7897	36095	25188	

^aSource: (4).

Table 53. Intra-LAFTA trade - 1963^a (thousand dollars, exports and imports F.O.B.)

Imports Exports	Argentina	Brazil	Chile	Colombia	Ecuador	Mexico	Paraguay	Peru	Uruguay	LAFTA
Argentina		77538	41476	8194	319	2651	9573	35532	9721	185004
Brazil	46203		10441	549	27	1353	2934	1044	13495	76046
Chile	14476	26962		873	741	1157	28	3708	1382	49327
Colombia	623	129	322		2660	216	38	1777	285	6050
Ecuador	270	13	2087	4242		7	1	1371	28	8019
Mexico	2452	10131	5033	3918	919		50	2953	490	25946
Paraguay	8594	395	165	1	1	8		-	1494	10658
Peru	6272	9897	24770	1736	1590	2426	7		2428	49126
Uruguay	916	9694	1471	1657	237	89	375	563		15002
LAFTA	79806	134759	85765	21170	6494	7907	13006	46948	29323	

^aSource: (4).

Table 54. Intra-LAFTA trade - 1964^a (thousand dollars, exports and imports F.O.B.)

Imports Exports	Argentina	Brazil	Chile	Colombia	Ecuador	Mexico	Paraguay	Peru	Uruguay	LAFTA
Argentina		97188	40720	9115	1088	5618	11305	30734	22649	218417
Brazil	90819		11320	1990	397	6253	2513	1257	18223	132772
Chile	20701	23034		1762	1172	1837	34	4050	1905	54495
Colombia	3400	-	300		3700	300	-	2700	500	10900
Ecuador	2305	130	1642	7252		48	18	1743	188	13326
Mexico	8515	5638	9469	5314	959		65	2795	1228	33983
Paraguay	11641	134	123	1	-	7		6	2934	14846
Peru	14207	10161	28944	2845	1766	3626	10		2978	64537
Uruguay	4100	1900	1800	5200	100	100	200	1600		15000
LAFTA	155688	138185	94318	33479	9182	17789	14145	44885	50605	

^aSource: (4).

Table 55. Intra-LAFTA trade - 1965^a (thousand dollars, exports and imports F.O.B.)

Imports Exports	Argentina	Brazil	Chile	Colombia	Ecuador	Mexico	Paraguay	Peru	Uruguay	LAFTA
Argentina		107100	53400	7100	600	6700	10600	37600	8000	231100
Brazil	140914		19147	2829	172	9101	2250	11853	11140	197406
Chile	26500	14100		1900	1400	2800	-	4600	1900	53200
Colombia	5454	377	755		3928	517	192	5198	279	16700
Ecuador	2717	5	1476	6374		167	26	2068	349	13182
Mexico	7385	5427	12267	5524	1313		81	3517	831	36345
Paraguay	14723	142	255	15	12	11		114	2223	17495
Peru	19646	5284	17419	4318	1372	4344	17		1667	54067
Uruguay	3097	5373	906	4638	71	261	210	1026		15582
LAFTA	217719	137803	104149	26324	8868	23734	13350	63908	26040	

^aSource: (4).

Table 56. Peruvian foreign trade by contents^a (million dollars)

Year	America								Asia				Africa		Oceania	
	LAFTA		USA		Other		Total		Japan		Total		Total		Total	
	X	M	X	M	X	M	X	M	X	M	X	M	X	M	X	M
1950	51.2	14.7	50.7	98.6	13.5	4.6	115.4	117.9	2.1	0.4	9.4	3.6	0.2	0.3	0.2	5.2
1951	50.4	21.0	58.9	156.8	11.9	7.6	121.2	185.4	7.8	1.4	11.8	7.8	0.3	0.2	0.3	0.7
1952	66.6	17.7	66.8	161.4	12.0	21.6	145.4	200.7	7.6	2.1	9.0	10.5	0.6	0.2	-	0.3
1953	51.2	17.9	84.5	161.3	8.8	22.2	144.5	201.4	11.8	4.1	13.4	10.2	0.4	0.2	0.9	0.1
1954	39.9	21.1	88.0	129.5	13.1	9.7	141.0	160.3	15.9	3.9	19.1	8.1	0.9	0.2	0.9	-
1955	49.9	23.1	97.6	150.2	15.5	12.4	163.0	185.7	10.1	5.2	12.0	11.4	0.4	0.4	1.4	0.2
1956	46.9	20.3	114.8	202.3	22.2	18.9	183.9	241.5	14.9	6.2	19.0	12.8	0.6	0.4	0.2	0.2
1957	44.7	30.1	115.4	240.7	27.8	20.9	187.9	291.7	24.0	9.7	24.9	18.6	0.7	0.4	1.8	0.2
1958	38.1	20.7	110.8	205.1	21.5	20.4	170.4	246.2	8.3	6.2	10.7	12.6	1.5	0.4	1.0	0.6
1959	46.7	20.8	98.2	155.6	24.8	16.8	169.7	193.2	15.9	7.8	17.4	13.8	1.4	0.5	1.0	2.3
1960	33.5	27.5	156.4	164.5	35.9	20.5	225.8	212.5	26.9	12.4	27.8	21.6	0.6	0.6	0.6	2.7
1961	31.5	31.8	177.3	207.0	31.0	22.8	239.8	261.6	37.5	19.3	41.0	29.7	0.7	0.7	3.9	2.1
1962	48.8	45.2	186.4	212.4	22.8	24.4	258.0	282.0	34.9	20.2	38.0	39.7	0.8	0.7	3.0	3.7
1963	49.1	62.0	189.2	207.6	13.4	24.8	251.7	294.4	42.0	35.2	44.6	48.1	2.6	1.0	2.7	3.2
1964	64.5	58.9	206.6	236.0	13.9	33.4	285.0	328.3	60.9	32.3	70.2	42.4	0.9	1.0	0.5	4.5
1965	54.1	80.9	224.7	290.1	15.2	50.5	294.0	421.5	61.3	52.1	67.4	65.9	0.9	1.0	2.5	6.2

^aSource: (38).

Table 56. (Continued)

Year	Europe											World ^b	
	EEC		EFTA				Other		Total				
	X	M	UK		Total		X	M	X	M			
			X	M	X	M							
1950	28.9	17.3	33.3	30.1	38.1	40.3	0.6	1.6	67.6	59.2	193.6	186.2	
1951	50.6	36.4	60.4	31.2	67.5	45.9	0.2	3.2	118.3	85.5	252.6	279.7	
1952	53.7	34.1	19.7	26.2	29.2	38.6	-	3.2	82.9	75.9	238.7	287.6	
1953	35.1	38.4	20.7	25.1	26.5	40.6	0.5	1.9	62.1	80.9	222.0	292.9	
1954	42.9	41.2	35.0	22.3	41.7	37.7	0.5	2.2	85.1	81.1	247.6	249.7	
1955	55.5	54.7	27.6	26.6	36.5	45.5	1.6	2.3	93.6	102.5	270.8	300.3	
1956	60.4	74.5	35.5	32.3	45.0	51.4	1.7	3.3	107.1	129.2	311.4	384.1	
1957	68.8	75.9	33.4	33.5	43.0	58.5	2.0	4.3	113.8	138.7	330.0	449.6	
1958	69.6	71.4	26.5	26.7	35.5	48.6	1.6	2.8	106.7	122.8	291.4	382.7	
1959	82.5	63.6	30.6	21.2	40.1	41.3	1.2	2.7	123.8	107.6	314.2	317.4	
1960	133.6	83.8	33.7	25.9	42.2	49.9	1.8	3.6	177.6	137.3	433.0	374.8	
1961	148.6	103.3	43.8	33.0	58.8	67.6	2.8	4.3	210.2	175.2	496.3	469.4	
1962	166.4	131.0	52.5	34.4	65.6	73.9	7.5	5.8	239.5	210.7	540.0	536.9	
1963	158.6	126.2	49.4	40.3	60.5	78.4	19.7	5.8	238.8	210.4	541.3	557.1	
1964	219.7	123.9	50.1	37.5	65.0	72.6	24.8	7.0	309.5	203.5	667.1	579.7	
1965	214.2	148.4	38.7	37.9	53.3	78.7	33.9	8.0	301.4	235.1	667.8	729.8	

^bExports include ship consumption; imports include non-specified countries.

Table 57. Principal negotiated export and import products by country^a (thousand dollars)

LAFTABTN	Product	1962		1963		1964		1965	
		Value	%	Value	%	Value	%	Value	%
<u>Argentina</u>									
<u>Exports</u>									
55.01.0.01	Uncombed and uncarded cotton	4044	56.8	3222	78.9	9971	75.8	12123	67.0
26.01.1.06	Iron ore	2100	29.5	784	19.2	1131	8.6	-	-
	Other	980	13.7	77	1.9	2049	15.6	5981	33.0
	Total	7124	100.0	4083	100.0	13151	100.0	18104	100.0
<u>Imports</u>									
10.01.0.01	Wheat	18005	60.8	23441	49.2	26629	66.7	27682	58.2
01.02.1.92	Live cattle	5360	18.1	16990	35.6	4303	10.8	5488	11.5
02.01.1.01	Fresh refrigerated or frozen beef	1676	5.7	2743	5.7	2323	5.8	3023	6.3
41.01.1.01	Dried or salted cattle hides	897	3.0	414	0.9	332	0.8	1139	2.4
02.01.1.11	Fresh refrigerated or frozen mutton	161	0.5	270	0.6	531	1.3	1703	3.6
32.01.0.02	Quebracho tanned leather extract	-	-	357	0.7	533	1.4	618	1.3
	Other	3523	11.9	3480	7.3	5276	13.2	7925	16.7
	Total	29622	100.0	47695	100.0	39927	100.0	47578	100.0
<u>Brazil</u>									
<u>Exports</u>									
79.01.1.01	Unrefined zinc and its un- refined alloids in lingots	3543	39.4	2841	35.2	5412	61.9	2935	76.7
74.01.3.01	Electrolytically refined copper	4396	48.9	3281	40.6	894	10.2	76	2.0
71.05.1.01	Unrefined silver	268	3.0	461	5.7	1205	13.8	470	12.3
78.01.1.11	Refined lead in bars	685	7.6	1106	13.7	726	8.3	194	5.1
23.01.1.02	Non-edible marine animal and fish meals	70	0.8	188	2.3	389	4.4	52	1.3
	Other	32	0.7	205	2.5	122	1.4	100	2.6
	Total	8994	100.0	8082	100.0	8748	100.0	3827	100.0

^aSource: Ministerio de Fomento y Obras Públicas, Dirección General de Industrias, Departamento de ALALC, Lima, Peru.

Table 57. (Continued)

LAFTABTN	Product	1962		1963		1964		1965	
		Value	%	Value	%	Value	%	Value	%
		<u>Brazil</u>							
	<u>Imports</u>								
15,16.0.02	Carnauba wax	30	40.0	20	64.5	32	12.3	18	2.9
84.45.6.01	Turret lathe for metal works	-	-	-	-	165	63.5	158	25.2
09.04.0.01	Black pepper	-	-	-	-	1	0.4	85	13.6
84.53.0.01	Data processing machines	-	-	-	-	-	-	133	21.2
	Other	45	60.0	11	35.5	62	23.8	233	37.1
	Total	75	100.0	31	100.0	260	100.0	627	100.0
		<u>Chile</u>							
	<u>Exports</u>								
55.01.0.01	Uncombed and uncarded cotton	17442	89.7	11243	55.6	8156	31.6	10013	67.2
17.01.1.03	Raw stand. sugar with 85 to 97% sacharose	-	-	8394	41.5	17251	66.7	3630	24.3
79.01.1.01	Unrefined zinc and its unrefined alloids in lingots	-	-	304	1.5	406	1.6	845	5.7
	Other	2003	10.3	290	1.4	37	0.1	424	2.8
	Total	19445	100.0	20231	100.0	25850	100.0	14912	100.0
		<u>Imports</u>							
08.06.0.01	Fresh apples	394	15.6	569	16.5	1060	26.5	2123	38.3
20.06	Canned fruits, with natural juice or syrup	532	21.1	901	26.2	908	22.7	1110	20.1
48.01.1.01	Newsprint paper	701	27.7	901	26.2	615	15.4	838	15.1
07.05.1.29	Lentils	146	5.8	142	4.1	354	8.9	166	3.0
44.04	Rough sawed lumber	29	1.2	102	3.0	182	4.6	204	3.7
08.06.0.02	Fresh pears	69	2.7	122	3.6	158	4.0	188	3.4
08.12.0.03	Dried plums, with seeds	47	1.9	58	1.7	128	3.2	178	3.2
08.05.0.04	Fresh or dried walnuts	58	2.3	50	1.5	120	3.0	112	2.0
49.02.0.01	Newspaper and periodical pub.	50	2.0	53	1.5	48	1.2	48	0.9
	Other	501	19.8	538	15.7	419	10.5	569	10.3
	Total	2527	100.0	3436	100.0	3992	100.0	5536	100.0

Table 57. (Continued)

LAFTABTN	Product	1962		1963		1964		1965	
		Value	%	Value	%	Value	%	Value	%
		<u>Colombia</u>							
		<u>Exports</u>							
15.04.2.91	Other raw marine animals and fish oils	-	-	808	49.8	1425	51.8	7	0.2
55.01.0.01	Uncombed and uncarded cotton	-	-	523	32.3	746	27.1	384	9.1
23.01.1.02	Non-edible marine animals and fishmeals	-	-	255	15.7	334	12.2	668	15.8
15.04.2.92	Other refined marine animal and fish oils	-	-	-	-	-	-	2957	69.9
.	Other	-	-	35	2.2	245	8.9	213	5.0
	Total	-	-	1621	100.0	2750	100.0	4229	100.0
		<u>Imports</u>							
56.01.2.01	Uncombed and uncarded synthetic textile fibers	-	-	209	97.7	422	87.6	260	17.5
01.01.1.92	Live cattle	-	-	-	-	-	-	799	53.8
82.08.0.01	Handmill for corn and coffee	-	-	-	-	-	-	124	8.3
02.01.1.01	Fresh refrig. or frozen mutton	-	-	-	-	-	-	112	7.5
	Other	-	-	5	2.3	60	12.4	191	12.9
	Total	-	-	214	100.0	482	100.0	1486	100.0
		<u>Ecuador</u>							
		<u>Exports</u>							
55.01.0.01	Uncombed and uncarded cotton	-	-	499	100.0	609	98.5	445	81.1
	Other	-	-	-	-	72	1.5	104	18.9
	Total	-	100.0	499	100.0	681	100.0	549	100.0
		<u>Imports</u>							
01.02.1.92	Live cattle	-	-	1206	58.7	1498	73.3	2407	68.9
10.05.0.02	Corn in grain	-	-	194	9.4	153	7.5	110	3.1
	Other	-	-	655	31.9	393	19.2	978	28.0
	Total	-	100.0	2055	100.0	2044	100.0	3495	100.0

Table 57. (Continued)

LAFTABTN	Product	1962		1963		1964		1965	
		Value	%	Value	%	Value	%	Value	%
		<u>Mexico</u>							
		<u>Exports</u>							
23.01.1.02	Non-edible marine animals and fishmeals	1770	100.0	2282	98.9	3513	97.4	4186	98.6
	Other	-	-	25	1.1	93	2.6	61	1.4
	Total	1770	100.0	2307	100.0	3606	100.0	4247	100.0
		<u>Imports</u>							
32.08.9.01	Vitrifiable compounds	128	26.1	130	30.7	132	13.8	324	13.4
38.08.1.01	Colophony	66	13.5	90	21.3	44	4.6	47	2.8
37.07.2.09	Other movie films positive and monochrome	49	10.0	67	15.8	63	6.6	54	3.2
57.04.1.02	Raw or processed henequen fibers	139	28.4	24	5.7	117	12.2	171	10.2
73.18.2.01	Seamless iron or steel pipes	-	-	-	-	404	42.3	1015	60.8
73.24.0.99	Seamless steel cylinders for high pressure	-	-	-	-	22	2.3	63	3.8
	Other	108	22.0	112	26.5	174	18.2	96	5.8
	Total	490	100.0	423	100.0	956	100.0	1670	100.0
		<u>Paraguay</u>							
		<u>Imports</u>							
32.01.0.02	Quebracho tanned leather extract	-	-	125	87.4	283	99.6	240	52.1
02.01.1.01	Fresh refrigerated or frozen beef	-	-	-	-	1	0.4	86	18.6
	Other	156	100.0	18	12.6	-	-	135	29.3
	Total	156	100.0	143	100.0	284	100.0	461	100.0

Table 57. (Continued)

LAFTABTN	Product	1962		1963		1964		1965	
		Value	%	Value	%	Value	%	Value	%
<u>Uruguay</u>									
<u>Exports</u>									
55.01.1.01	Uncombed and uncarded cotton	1085	91.4	1054	45.6	1809	61.7	1091	67.3
78.01.1.11	Refined lead in bars	91	7.7	230	9.9	103	3.5	190	11.7
79.01.1.01	Unrefined zinc and its unrefined alloys in lingots	-	-	5	0.2	619	21.1	236	14.6
	Other	11	0.9	1023	44.3	401	13.7	103	6.4
	Total	1187	100.0	2312	100.0	2932	100.0	1620	100.0
<u>Imports</u>									
02.01.1.01	Fresh refrigerated or frozen beef	11	21.6	28	6.0	399	46.2	1195	51.5
02.01.2.99	Fresh refrigerated or frozen cattle offals	21	41.2	44	9.5	189	21.9	273	11.8
02.01.1.11	Fresh refrigerated or frozen mutton	-	-	-	-	133	15.4	398	17.1
02.01.2.02	Fresh refrigerated or frozen livers	-	-	-	-	14	1.6	155	6.7
	Other	19	37.2	393	84.5	129	14.9	300	12.9
	Total	51	100.0	465	100.0	864	100.0	2321	100.0

Table 58. Peru-LAFTA exports by product and country - 1960^a (thousand dollars)

Product	Country								
	Argentina	Brazil	Chile	Colombia	Ecuador	Mexico	Paraguay	Uruguay	LAFTA
Coffee	22	-	2	-	-	-	-	-	24
Cotton	4804	-	4210	443	369	-	-	254	10080
Sugar	-	-	4578	-	-	-	-	-	4578
Wool	-	-	20	7	-	2	-	-	29
Fishmeal	-	147	-	68	-	768	-	-	983
Fish oil	-	-	-	-	-	-	-	-	-
Copper	-	17	-	-	-	-	-	33	50
Crude petroleum	1699	1489	42	-	-	-	-	-	3230
Iron ore	690	-	-	-	-	-	-	-	690
Lead	-	-	33	24	33	-	-	349	439
Silver	-	-	-	-	-	-	-	-	-
Zinc	-	139	245	-	-	-	-	6	390
Other	2251	323	7392	229	2730	35	8	25	12993
Total	9466	2115	16522	771	3132	805	8	667	33486

^aSource: (38).

Table 59. Peru-LAFTA exports by product and country - 1961^a (thousand dollars)

Product	Country Argentina	Brazil	Chile	Colombia	Ecuador	Mexico	Paraguay	Uruguay	LAFTA
Coffee	75	-	1	-	-	-	-	64	140
Cotton	4375	-	10014	513	297	-	-	1224	16423
Sugar	-	-	-	-	-	-	-	-	-
Wool	-	-	24	7	-	8	-	1	40
Fishmeal	-	289	-	45	-	883	-	-	1217
Fish oil	-	-	-	-	-	-	-	-	-
Copper	172	273	-	-	-	-	-	-	1145
Crude petroleum	1419	1146	149	-	-	-	-	-	2714
Iron ore	809	-	-	-	-	-	-	-	809
Lead	-	659	25	191	24	-	-	85	984
Silver	-	41	-	-	-	-	-	-	41
Zinc	-	615	186	-	-	-	-	12	813
Other	1303	97	3965	190	1591	21	17	38	7222
Total	8153	3820	14364	946	1912	912	17	1424	31548

^aSource: (38).

Table 60. Peru-LAFTA exports by products and country - 1962^a (thousand dollars)

Product	Country Argentina	Brazil	Chile	Colombia	Ecuador	Mexico	Paraguay	Uruguay	LAFTA
Coffee	-	-	19	-	-	-	-	8	27
Cotton	4083	8	18073	449	242	-	-	1085	23940
Sugar	-	-	-	-	-	-	-	-	-
Wool	12	4	40	-	-	4	-	-	60
Fishmeal	14	70	9	254	-	1771	-	-	2118
Fish oil	-	-	-	250	-	-	-	-	250
Copper	664	4397	-	-	-	-	-	-	5061
Crude petroleum	627	1641	97	-	-	-	-	-	2365
Iron ore	2100	-	-	-	-	-	-	-	2100
Lead	201	710	166	-	55	-	-	91	1223
Silver	-	268	56	-	-	-	-	-	324
Zinc	-	3544	293	-	-	-	-	-	3837
Other	559	431	4912	47	1230	19	8	265	7471
Total	8260	11073	23665	1000	1527	1794	8	1449	48776

^aSource: (38).

Table 61. Peru-LAFTA exports by products and country - 1963^a (thousand dollars)

Product	Country Argentina	Brazil	Chile	Columbia	Ecuador	Mexico	Paraguay	Uruguay	LAFTA
Coffee	8	-	31	-	-	25	-	-	64
Cotton	3548	-	11679	523	509	-	-	1163	17422
Sugar	-	-	8394	-	-	-	-	963	9357
Wool	6	3	58	5	-	-	-	2	74
Fishmeal	-	188	-	255	-	2282	-	-	2725
Fish oil	-	-	-	808	11	-	-	-	819
Copper	36	3372	-	-	-	-	-	-	3408
Crude petroleum	1619	1559	-	-	-	-	-	-	3178
Iron ore	784	-	-	-	-	-	-	-	784
Lead	-	1106	134	20	-	-	-	230	1490
Silver	-	461	65	3	-	-	-	-	529
Zinc	-	2841	304	12	-	-	-	5	3162
Other	271	367	4105	110	1070	119	7	65	6114
Total	6272	9897	24770	1736	1590	2426	7	2428	49126

^aSource: (38).

Table 62. Peru-LAFTA exports by products and country - 1964^a (thousand dollars)

Product	Country								
	Argentina	Brazil	Chile	Colombia	Ecuador	Mexico	Paraguay	Uruguay	LAFTA
Coffee	19	-	38	-	-	-	-	-	57
Cotton	10016	-	8168	746	609	23	-	1826	21388
Sugar	-	-	17251	-	120	-	-	-	17371
Wool	75	-	7	6	-	13	-	-	101
Fishmeal	38	389	-	334	30	3513	-	-	4304
Fish oil	-	71	-	1425	-	-	-	5	1501
Copper	717	894	-	-	-	-	-	-	1611
Crude petroleum	1004	1292	-	-	-	-	-	-	2296
Iron ore	1508	-	-	-	-	-	-	-	1508
Lead	-	727	301	21	-	-	-	103	1152
Silver	-	1194	-	60	-	-	-	18	1272
Zinc	-	5412	406	63	-	-	-	619	6500
Other	830	182	2773	190	1007	77	10	407	5476
Total	14207	10161	28944	2845	1766	3626	10	2978	64537

^aSource: (38).

Table 63. Peru-LAFTA exports by products and country - 1965^a (thousand dollars)

Product \ Country	Argentina	Brazil	Chile	Colombia	Ecuador	Mexico	Paraguay	Uruguay	LAFTA
Coffee	26	-	33	-	-	-	-	-	59
Cotton	14346	5	10011	384	445	50	-	1090	26331
Sugar	-	-	3695	1	-	-	-	-	3696
Wool	84	-	-	-	-	3	-	-	87
Fishmeal	1719	52	-	668	-	4186	-	-	6625
Fish oil	-	36	-	2964	-	1	-	-	3001
Copper	75	125	-	-	-	-	-	-	200
Crude petroleum	1413	1194	-	-	-	-	-	27	2634
Iron ore	246	-	-	-	-	-	-	-	246
Lead	-	194	407	-	17	-	-	190	808
Silver	-	475	-	40	-	-	-	-	515
Zinc	690	2935	845	33	-	-	-	236	4739
Other	1047	268	2428	228	910	104	17	124	5126
Total	19646	5284	17419	4318	1372	4344	17	1667	54067

^aSource: (38).

Table 64. Peru-LAFTA imports by Basic SITC category and country-1960^a (thousand dollars)

Category	Country									LAFTA
	Argentina	Brazil	Chile	Colombia	Ecuador	Mexico	Paraguay	Uruguay		
00 Live animals	97	6	21	-	51	-	-	45	220	
01 Meat and preparations	712	-	1	-	-	-	-	31	744	
04 Cereal and preparations	13997	-	490	-	-	-	-	-	14487	
05 Fruit and vegetables	194	4	978	-	137	-	-	-	1313	
07 Coffee, tea, cocoa, and spices	2	4	-	32	1206	8	-	-	1252	
21 Hides and skins, undressed	737	127	-	-	6	-	-	5	875	
29 Crude animal and vegetable materials n.e.s.	2	103	3	-	77	21	-	-	206	
33 Petroleum and derivatives	-	12	-	3400	-	2	-	-	3414	
41 Animal oils and fats	-	-	-	-	-	-	-	-	-	
42 Fixed vegetable oils	2	-	-	-	-	-	-	1	3	
53 Dyeing, tanning and coloring materials	730	-	-	-	-	2	44	-	776	
56 Fertilizers, manufactured	-	-	96	-	-	-	-	-	96	
Other	1239	262	1739	67	30	789	1	16	4143	
Total	17712	518	3328	3499	1507	822	45	98	27529	

^aSource: Instituto Nacional de Planificación, Departamento de Comercio Exterior, Lima, Peru.

Table 65. Peru-LAFTA imports by basic SITC category country - 1961^a (thousand dollars)

Category	Country	Argentina	Brazil	Chile	Colombia	Ecuador	Mexico	Paraguay	Uruguay	LAFTA
00	Live animals	434	-	31	-	-	-	-	10	475
01	Meat and preparations	2177	-	2	-	-	-	1	5	2185
04	Cereal and preparations	14104	-	213	-	26	-	-	-	14343
05	Fruit and vegetables	196	7	1358	9	185	-	-	-	1755
07	Coffee, tea, cocoa and spices	2	-	-	31	836	-	-	-	869
21	Hides and skins, undressed	359	12	-	-	-	-	-	-	371
29	Crude animal and vegetable materials n.e.s.	3	747	1	1	79	22	-	-	853
33	Petroleum and derivatives	-	-	-	3708	-	-	-	-	3708
41	Animal oils and fats	623	-	-	-	-	-	-	-	623
42	Fixed vegetable oils	1124	-	-	-	-	-	-	2	1126
53	Dyeing, tanning and coloring materials	420	-	-	-	-	2	107	-	529
56	Fertilizers, manufactured	-	-	54	-	-	-	-	-	54
	Other	1596	229	1661	509	16	758	3	163	4935
	Total	21038	995	3320	4258	1142	782	111	180	51826

^aSource: Instituto Nacional de Planificación, Departamento de Comercio Exterior, Lima, Peru.

Table 66. Peru-LAFTA imports by basic SITC category and country - 1962^a (thousand dollars)

Category	Country								
	Argentina	Brazil	Chile	Colombia	Ecuador	Mexico	Paraguay	Uruguay	LAFTA
00 Live animals	5749	-	14	5	1901	-	-	18	7687
01 Meat and preparations	2979	-	2	-	-	-	-	33	3014
04 Cereals and preparations	18296	-	25	-	142	-	-	-	18463
05 Fruit and vegetables	207	21	1501	-	251	1	-	-	1981
07 Coffee, tea, cocoa and spices	1	6	1	64	693	14	-	-	779
21 Hides and skins, undressed	897	1	-	1	2	-	-	-	901
29 Crude animal and vegetable materials n.e.s.	4	1483	7	-	69	33	-	-	1596
33 Petroleum and derivatives	-	-	-	4313	-	-	-	-	4313
41 Animal oils and fats	-	-	-	-	-	-	-	-	-
42 Fixed vegetable oils	-	-	-	-	-	-	-	-	-
53 Dyeing, tanning and coloring materials	556	-	-	-	-	128	156	-	840
56 Fertilizer, manufactured	-	-	84	-	-	-	-	-	84
Other	1356	341	1832	323	127	1483	5	62	5529
Total	30045	1852	3466	4706	3185	1659	161	113	45187

^aSource: Instituto Nacional de Planificación, Departamento de Comercio Exterior, Lima, Peru.

Table 67. Peru-Lafta imports by basic SITC category and country - 1963^a (thousand dollars)

Category	Country								
	Argentina	Brazil	Chile	Colombia	Ecuador	Mexico	Paraguay	Uruguay	LAFTA
00 Live animals	17806	-	28	-	1210	-	-	-	19044
01 Meat and preparations	4156	-	20	-	-	2	-	32	4210
04 Cereal and preparations	23479	-	169	-	194	-	-	389	24231
05 Fruit and vegetables	644	6	2158	-	241	-	1	3	3053
07 Coffee, tea, cocoa and spices	13	28	1	33	407	33	-	3	518
21 Hides and skins, undressed	415	2	-	-	2	-	-	-	419
29 Crude animal and vegetable materials n.e.a.	13	626	3	1	66	36	17	-	762
33 Petroleum and derivatives	370	-	-	1170	-	1	-	-	1541
41 Animal oils and fats	124	-	-	-	-	-	-	-	124
42 Fixed vegetable oils	2	2	-	-	-	-	-	-	4
53 Dyeing, tanning, and coloring materials	363	-	1	-	-	131	125	-	620
56 Fertilizers, manufactured	-	-	69	-	-	6	-	-	75
Other	1650	320	1859	1068	202	2121	2	165	7387
Total	49035	984	4308	2272	2322	2330	145	592	61988

^aSource: Instituto Nacional de Planificación, Departamento de Comercio Exterior, Lima, Peru.

Table 68. Peru-LAFTA imports by basic SITC category and country - 1964^a (thousand dollars)

Category	Country								
	Argentina	Brazil	Chile	Colombia	Ecuador	Mexico	Paraguay	Uruguay	LAFTA
00 Live animals	4851	-	12	-	1536	5	-	4	6408
01 Meat and preparations	4317	-	8	-	-	-	1	802	5128
04 Cereals and preparations	27054	-	31	1	1754	3	-	-	28843
05 Fruit and vegetables	598	7	3095	-	153	-	5	-	3858
07 Coffee, Tea, cocoa and spices	5	35	6	59	84	50	-	-	239
21 Hides and skins, undressed	393	2	-	2	1	-	-	-	398
29 Crude animal and vegetable materials n.e.s.	5	430	1	1	65	45	6	1	554
33 Petroleum and derivatives	749	-	-	1967	-	-	-	-	2716
41 Animals oils and fats	-	-	-	-	-	-	-	-	-
42 Fixed vegetable oils	4	-	-	-	-	-	-	-	4
53 Dyeing, tanning and coloring materials	542	2	10	5	-	146	283	-	988
56 Fertilizers, manufactured	-	-	89	-	-	-	-	-	89
Other	2979	873	1758	1114	239	2518	3	152	9636
Total	41497	1349	5010	3149	3832	2767	298	959	58861

^aSource: Instituto Nacional de Planificación, Departamento de Comercio Exterior, Lima, Peru.

Table 69. Peru-LAFTA imports by basic SITC category and country - 1965^a (thousand dollars)

Category	Country								
	Argentina	Brazil	Chile	Colombia	Ecuador	Mexico	Paraguay	Uruguay	LAFTA
00 Live animals	5927	30	68	805	2486	-	-	108	9424
01 Meat and preparations	5937	10	21	116	-	-	107	2083	8274
04 Cereals and preparations	27882	6040	8	8	110	-	-	-	34048
05 Fruit and vegetables	765	4	4363	-	139	2	7	-	5280
07 Coffee, tea, cocoa and spices	3	133	-	120	856	32	2	1	1147
21 Hides and skins, undressed	1143	3	-	-	1	-	-	55	1202
29 Crude animal and vegetable materials n.e.s.	5	-	4	2	46	48	-	-	105
33 Petroleum and derivatives	207	-	13	1793	-	-	-	-	2013
41 Animal oils and fats	1	-	-	-	-	-	-	-	1
42 Fixed vegetable oils	2249	-	-	-	-	-	-	-	2249
53 Dyeing, tanning and coloring materials	679	24	6	-	-	235	347	-	1291
56 Fertilizers, manufactured	-	-	5	137	-	-	-	-	142
Other	4421	3077	2469	1560	532	3439	8	241	15747
Total	49219	9321	6957	4541	4170	3756	471	2488	80923

^aSource: Instituto Nacional de Planificación, Departamento de Comercio Exterior, Lima, Peru.