ALLIANCE

B. THE ALLIANCE FOR PROGRESS

1. US Organizational Changes

a. Merger of State-AID for Latin America

On December 15, 1963, President Johnson asked Ambassador Thomas C. Mann "to undertake the coordination and direction of all policies and programs of the United States Government -- economic, social and cultural -- relating to Latin America". The President supplied further impetus for action by appointing Mr. Mann as his Special Assistant for Latin America, as well as Assistant Secretary of State for Inter-American Affairs, and US Coordinator, Alliance for Progress.[1/]

Conforming to this triple role, the Bureau of Inter-American Affairs (ARA) of the Department of State and the Bureau for Latin America (LA) of the Agency of International Development adopted new organizational arrangements.[2/]

1/ Letter from President Johnson to Thomas Mann, December 15, 1963.

2/ Bell-Mann Agreement, February 14, 1964.

Parallel State and AID functions were combined, starting with the merger of ARA geographic offices with their LA counterparts, followed by the merger of other organizational components on an orderly basis.

It was anticipated that the merger of the two Bureaus would provide the following benefits:

- Better coordination of the Latin American foreign policies and operations of all US agencies operating in Washington or abroad;
- Provision of a single focal point for each country to which Department and other Government officials might turn for information, advice and guidance;
- Achievement of a higher degree of coordination and cooperation, and hence more efficient use of ARA and LA personnel through enabling them to function as a team;
- Reduction of the layering of personnel;
- Enabling the Assistant Secretary/US Coordinator to administer both foreign policy and development programs in Latin America through a single chain of direction;
- Provision of broader career opportunities through cross-training of State and AID officers.

b. Reorganization in Washington

(1) Substantive Assignments

As a prelude to the merger of the organizational components, the four Deputies serving the Assistant Secretary/US Coordinator were immediately designated to serve in two-hatted roles, with a clear division of responsibility. The principal Deputy Assistant Secretary became responsible primarily for political and politico-military matters, and also served as alter ego for the Assistant Secretary. The Deputy US Coordinator was delegated authority for all AID (LA) matters, and served as alter ego for the US Coordinator. The Deputy Assistant Secretary for Economic Policy is the principal advisor to, and negotiator for, the Assistant Secretary and the combined organization on economic and financial policy. The Deputy Assistant Secretary for Management provides executive direction and coordination on the management policies and operations of both Bureaus, Washington and overseas.

The ARA-LA geographic offices were designated Country Affairs Offices, headed by a Director and Deputy Director of Country Affairs and, to achieve an appropriate balance of talent, one was to be a State officer and the other an AID officer. The Director of Country Affairs is subject to the general direction of the Assistant Secretary for Inter-American Affairs (US Coordinator, Alliance for Progress) and with respect to development matters, the direction of the Deputy US Coordinator. As such, he is the focal point for the total US foreign affairs programs, policies and operations in his particular country or countries of assignment. The Director of Country Affairs, when an FSO-1 officer, is viewed as being comparable in importance to a Chief of Mission.

The physical and operational merger of the Country Affairs Offices took place in March 1964, though almost another year was required to complete delegations of authority, position classification, funding, etc.[3/]

3/ Letter from Deputy Under Secretary for Administration to all Country Directors setting forth the role of the Country Director, August 4, 1966.

(2) Administrative Management

After operating with two separate administrative structures under single leadership for a little over a year, an exhaustive review of the management functions was initiated in September 1965. The proposed reorganization recommendations were presented jointly to the Deputy Under Secretary for Administration (State) and the Assistant Administrator for Administration (AID) on October 15, 1965. Following their concurrence, the ARA/LA Bureau formally initiated a reorganization of management on December 13, 1965. Because of the differences in the personnel systems, three separate personnel offices were established within the Bureau with provision for close coordination and liaison among the offices, i.a.: 1) Overseas Personnel Division ARA(State); 2) Overseas Personnel Division LA(AID); and 3) Headquarters Personnel Division with responsibility for all State and AID foreign service and classified employees assigned to the Bureau. Also the Contract Services Division (AID) was left as a separate entity since State does not have a parallel function. All other administrative functions in the Office of Management were merged.

(3) Office of Institutional Development

Under this Office, only the Labor Division is operating as a joint State/AID activity. The most recent survey of the office, completed in November 1967, led to its restructuring and its assumption of over-all responsibility for the formulation of sector development policy and strategy, the development of guidelines for sector analyses, and increased assistance to the AID Missions for the development, review and evaluation of sector programs and projects in Latin America.

However, decisions reached by the American Chiefs of State at Punta del Este in April 1967 required a re-evaluation of the functions of this office and its capacity to provide the quality of leadership and types of skills needed to stimulate institution building designed to accelerate social and political development in Latin America. To this end, there has been appointed a Deputy Assistant Secretary for Social and Political Development; and the functions of this office have been reconstituted to focus efforts on socio-political areas whose importance to the development process has been recognized - but whose "how" has been persistently elusive. The role, then, of the restructured and renamed Office of Social and Civic Development will be to develop into actionable programs the still vague concepts of socio-political development. ARA-LA/SCD will be responsible for revitalizing such existing interests as local self-government and trade and campesino union development and cooperatives; for developing new programs in such areas of democratic self-development as youth affairs, local courts reform, population and family planning, private institutional development and civic education; and for the involvement of social institutions and professional organizations in the development process.

(4) Office of Regional Policies and Programs

In order to strengthen the Bureau's ability to provide staff support to the Assistant Secretary with respect to his responsibility for coordinating the program planning/resource allocation of all agencies of the US Government operative in Latin America,[4/] the Office of Regional Policies and Programs was established on November 2, 1967. Simultaneous with this merger of State and

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4/ NSAM 341.

AID program planning activities under a single senior officer, the Offices of Inter-American Security Affairs and Development Planning were abolished and their functions absorbed into the newly-created Office of Regional Policies and Programs.

c. Reorganization in the Field

The ARA/LA Bureau began its program of combined USAID/Embassy administrative operations in April 1964, with the establishment of the Joint Administrative Organization in Caracas, Venezuela. Since then, we have established Joint Administrative Organizations in Argentina, Costa Rica, Dominican Republic, El Salvador, Honduras, Jamaica, Mexico, Nicaragua, Paraguay, Uruguay, Chile and a consolidated personnel office in Rio de Janeiro, Brazil.

The remaining posts where we have both AID and State operations are not being considered for combination at the present time for a variety of reasons, ranging from size of the programs to the remoteness of the physical location of the two operations.

Embassy and AID economic operations have been combined in Brazil, Chile, Costa Rica, Dominican Republic, El Salvador, Jamaica, Peru and Venezuela. Again, we are remaining ready for further consolidations of economic operations when circumstances indicate that this is the best course of action.

d. Analysis of Benefits

It has been almost four years since the beginning of the ARA-LA merger. We now have experience on which to evaluate the results in terms of operational effectiveness in the achievement of US objectives.

As far as substance is concerned, the integration of the two Bureaus has strengthened the planning, management and coordination of US programs. The designation of one senior-level officer to manage the affairs of a country or a group of countries has facilitated and strengthened the role of the Bureau in planning and managing the various programs carried out in Latin America. There is less "buck-passing", memo writing and dissension and, at the same time, less diffusion in terms of responsibility. An added benefit of the integration lies in the area of personnel development. Office Directors and their deputies under the present organization are involved in the total range of US activities being carried out in the country, or countries, for which they have responsibility. The cross-training of State and AID officers benefits both agencies, and, at the same time, provides the Bureau with a greater source of manpower from which to draw.

On the administrative side, the integration has been more difficult and can only be called minimally successful in a number of respects. A part of this difficulty stems from the fact that AID did not have a political program, nor did State have a development assistance program, prior to the merger. However, both State and AID have well-defined administrative systems insofar as policies, procedures, reporting requirements and people are concerned. Hence, integration has involved an intensive cross-training process, as well as the necessity to negotiate out differences and develop workable compromises through the various chains of command in both State and AID. At the same time, it has been necessary to give particular attention to avoiding the impression that the interests of either State or AID are being favored.

In addition, ARA/LA has the disadvantage of being an anomaly within the State and AID bureaucracy, having to depend upon and be responsive to both. This has tended to create some friction and resistance from other Bureaus and Offices of both State and AID with which we must work in carrying out our day-to-day operational responsibilities.

2. Latin American Economic and Social Development

a. Growth and Stabilization

By a continuing effort to meet the 2.5 percent per capita growth rate set by the Alliance in 1961, the Department of State has sought policy changes in certain key Latin American countries. Brazil, Chile and Colombia, whose economies suffered heavily from excessive inflation, have undertaken, with assurances of US cooperation, to plan and carry out the broad range of policy changes, structural corrections and institutional modernization required to remove inflationary pressures and set the stage for balanced growth with an efficient allocation of resources.

Previously-developed US assistance programs, concentrating on the transfer of technical knowledge and on helping to complete individual projects, proved inadequate for dealing with the need to assist appropriately the countries seeking to make basic changes in the direction of their economic development. A new type of assistance instrument, the program loan, was developed for this purpose in 1964. A flexible tool, the program enabled the Department to furnish a special form of assistance in those countries where a government demonstrated a strong interest in development and was willing and able to adopt basic improvement measures. The program loan furnishes financing for imports from the United States, which increase the supply of goods essential for development and thereby reduce the burden upon the receiving country's foreign exchange resources. As private sector importers pay for goods received, the local currency generated is directed to support an expansion of investment for development, both in the public and private sectors.

Domestic measures related to program lending have included tax reform, crop diversification, import liberalization and exchange-rate adjustments designed to decelerate inflation, promote private and public sector investment and expand exports. Program funds facilitate a smoother transition by enabling the recipient country's economy to adjust more readily to the resource shifting while, at the same time, they form a strong inducement to the recipient government to carry forward its program.

There has been an equal effort to see that US economic programs contribute to the further expansion of our trade and do not create adverse effects on our balance of payments. Projects result in a short-run additionality of US exports when they are projects which a country would not otherwise have undertaken in a particular year and when the project commodities are tied to US procurement. Long-run additionality comes when projects lead to "follow-on" orders (for spare parts or expansion) or when they lead to economic growth and thus increase the general import demands of an expanding economy. Among the criteria for project selection are those relating to an "additionality" effect on US exports.

Several measures are taken to ensure to the extent consistent with other objectives that the AID program benefits the US balance of payments. US-financed imports are exempted from import surcharges and prior import deposits, short-term credit is extended to importers of US-financed goods, and the list of commodities available for US-financing is limited to those which both have a high development impact and which will stimulate increased US exports. There are severe limitations on local currency financing of loan projects outside of agriculture and education sectors, and country trust funds are set up to finance US local costs wherever feasible.

It should be noted that Latin American AID programs have not had any adverse effect on the US balance of payments. Our payments position with Latin America moved from a deficit of about $300 million in 1960-61 to a surplus of $332 million in 1967, taking into account the net outflow effects of all US assistance to the region. While the overall US balance deteriorated from $2.7 billion to $850 million in the first half of 1968, our balance with Latin America improved to almost $120 million from about $80 million during the same period in 1967. Unlike Europe, Latin America had not been converting its increased dollar holdings into gold. The US share of the non-US-financed market in Latin America has remained constant at 38-40 percent over theAlliance period, and our share of the import market supplied by industrialized countries has risen from about 46 percent 1961-63, to 49 percent 1964-67.

Those aspects of the program which affect development, income distribution and structural or institutional adjustment are always given top consideration. The loan agreements have normally included a number of sub-targets which attempted to qualify various aspects of the recipient government's self-help effort. For example, in Brazil, sub-targets included the level of financing required for the minimum price program, the surplus to be sought from coffee operations, the limit on loans to be given government entities and estimated personnel costs.

The total program approach, together with self-help efforts by the recipient countries, has brought impressive results in Brazil, Colombia and Chile, the countries receiving the bulk of US assistance to Latin America. The improvement with regard to stabilization is reflected by the following table:

Cost of Living Trends in Program Loan Countries

Annual Percentage Change

	Brazil	Chile	Colombia
Average 1963-64	83	44	22
1965	45	26	14
1966	41	17	13
1967	25	22	8

There has been a trend toward deceleration of the annual rate of price increases in all three of these countries since 1964. The only deviation from this trend has been the 1967 performance in Chile where the price increase for the year was slightly higher than in 1966. Indications are that price stability in Chile during 1968 will not improve and may worsen due to political problems confronting the Government of Chile and a record drought. Problems remain in all three countries and there may be other periodic cases of slippage but performance has improved.

The Department's support for the development efforts of all Latin American countries receiving assistance has been carried out in harmony with the findings of the Inter-American Committee on the Alliance for Progress (CIAP).

Our support has been closely coordinated with the lending activities of the International Bank for Reconstruction and Development and the International Monetary Fund.

b. Rural Development

(1) Major Policy Changes

At the beginning of the Johnson Administration the Department's approach to agricultural problems was already in transition. Direct technical assistance was being phased out, and the technical assistance that continued was turned over to university contractors. In its place the Department supported capital assistance, in the form of loans rather than grants. Operationally, these changes signaled a trend away from project-oriented programs and towards institutional development, overall sector planning, policy requirements and self-help measures. Although, as appropriations decreased and the US balance of payments deficit worsened, AID was obliged to reduce allocations in this field, the Department succeeded in obtaining better treatment for Latin America than other regions, and gave greater emphasis to agriculture than was given before the Alliance for Progress was organized. This emphasis on agriculture was reinforced by President Johnson's efforts at the Summit Conference at Punta del Este.

(2) Assessment of Policy

These efforts combined resulted in very significant increases in agricultural production. Not only have the production growth rates set in the Alliance Charter been met, but in many countries the goals were exceeded. Twelve Latin American countries now have agricultural production growth rates well above population increases. On the other hand, income distribution has not significantly improved, and the level of living of the great masses of farmers has not moved ahead with the GNP. The economic groundwork has been laid, however, for the next step of social and political progress.

(3) Policy Thrust

The Department's tactics centered upon persuading host countries to change their policies, particularly policies that discourage investment in agriculture. Export taxes, unwarranted price controls, duties and internal taxes on imported inputs, transportation and market taxes, high cost of storage and handling, unrealistic exchange rates, and high cost of credit all tend to increase marketing risks, decrease the farmers' profits, and increase the consumers' costs. These factors can keep modern agricultural technology from being profitable in spite of increase in yields. Similarly more research, more extension service, more education and more land reform, all important and necessary, cannot be utilized until consumers can buy and farming is profitable. It was believed that, properly managed, grants, loans, and PL 480 assistance would serve to bring about needed policy changes.

(4) Specific Results

Considerable progress has been made. Nearly all the Alliance republics have adopted land reform legislation, with Mexico, Venezuela and Chile scoring the most notable advances. Crop diversification programs are under way in most of the Alliance countries to reduce dependence on a single major crop. With the growth of internal trade under the Central American Market, development of agriculture for domestic use has received greater attention. Agricultural credit has become available on reasonable terms in many countries. Tenure on land is more secure. The rate of investment in the agricultural sector is beginning to grow.

c. Education

Building on the firm base established during the Kennedy years, the Johnson Administration broadened and deepened US support for education in Latin America -- a critical factor in the social and economic development of the region. It increased the flow of US resources to both bilateral and multilateral assistance programs and exerted strong leadership at the Punta del Este Meeting of Chiefs of State to make education a cornerstone of Phase II of the Alliance for Progress.

In no aspect of US participation in the Alliance was the President's personal influence more pervasive and direct than in education. Beginning with his historic Smithsonian Speech in September 1965, followed by a directive to AID for new initiatives in education, agriculture and health; and signing of the International Education Act in October 1966, the President's new policy lines were well staked out when planning started for the 1967 Summit Meeting.[1/] Moreover, the multilateral agencies, especially the IDB and the IBRD, with strong US Executive backing, had begun to channel major resources to education in Latin America.

The President also took a deep personal interest in the substantive aspects of education in the developing countries. He promulgated a strong US policy for the use of books as instruments of educational development and enthusiastically promoted the application of educational technology, educational television in particular, to the problems of developing countries. He saw the drag on development caused by the "technological gap" and gave leadership to new initiatives for dealing with it. Science and technology

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1/ Department of State/AID, Pre-Summit Planning Paper, "Raising the Alliance Sights with Special Emphasis on Agriculture and Education," November 5, 1966.

emerged as the "Cinderella" of Punta del Este thanks to the President's personal persuasiveness backed up by concrete proposals advanced by Assistant Secretary for Inter-American Affairs Lincoln Gordon, and by Donald F. Hornig, Presidential Science Advisor.

Knowing that an assured flow of US resources was essential to accelerating educational progress under the Alliance, the President sought pre-Summit approval of the Congress for a five-year funding plan (also for agriculture and health). The Congress denied this advance commitment of funds but, even so, AID registered impressive increases in Alliance funds to education in FY 1967 and FY 1968 -- this in spite of reductions in Alliance appropriations for the two years.

(1) Bilateral Programs

The Department, in implementing the new initiative in education, developed new strategies and instruments for educational assistance. Capitalizing on past experience (some of it disheartening), we sought ways to elicit greater national commitment to self-help and reform.

This called for a shift from grant to loan funding of educational projects and programs, and a heavy emphasis on sound national planning as a prerequisite for substantial assistance.

The Department pioneered a new instrument -- the sector loan -- for channeling resources into areas of high priority. The first AID loan of a truly sectoral character was made in FY 1967 to the Government of Chile ($10 million) for educational expansion and modernization. As another example, in June 1968, AID authorized a $1.9 million loan to El Salvador for an educational reform program built around the use of instructional television. This action, coupled with initial grant funded assistance, marked the culmination of more than a year of planning and negotiation with President Fidel Sanchez and his Minister of Education to formulate the pilot demonstration project proposed by President Johnson at Punta del Este. The two presidents dedicated the project during the President's Central American Summit visit.2/

2/ Letter to the President from Fidel Sanchez Hernandez, President, Republic of El Salvador, December 14, 1967, regarding ETV initiative and President Johnson's reply (January 6, 1968 LA/CEN).

Technical assistance to education also increased, and US educational institutions played a vital and enlarged role in providing it. Indeed, the university contract became the major instrument for executing technical assistance programs. Between 1964 and 1968 the number of university contractors nearly doubled (51) and cumulative funding approached $60 million.

(2) Regional Programs

Through its Regional Technical Aids Center (RTAC) in Mexico, the Department continued and expanded its program for providing Spanish-language books and other educational materials. In 1966, RTAC began to give high priority to translation of university textbooks in cooperation with Latin American publishers, principally in Mexico City and Buenos Aires. RTAC with collaboration of AID country Missions pioneered the establishment of university textbook rental libraries and cooperatives. This program holds promise of helping to alleviate a critical problem -- the shortage of textbooks at prices students can afford.

In 1966 the Department joined forces with the Latin

American Scholarship Program of American Universities, Inc., an association of 150 US institutions to provide scholarships to promising Latin youth of limited means. Under a tri-partite arrangement the US institution provides tuition-free admission, the sponsoring Latin American university defrays the cost of international travel and English language instruction (if required) and AID provides the student a maintenance allowance. Each student signs an agreement with his home country institution to return and teach. By the fall term of 1968 more than 450 LASPAU students will be working toward a master's degree in undergraduate and graduate schools in the United States.

The arrangement with LASPAU has been utilized to implement the Lincoln-Juarez scholarship program agreed to by President Johnson and President Diaz Ordaz in April 1966. Forty to sixty Latin American students of outstanding potential have been named each year as "Juarez Scholars" in the US in honor of Benito Juarez. Mexico conducts a counterpart program for "Lincoln Scholars."

(3) Multilateral Programs

The signing of the Declaration of the Presidents issued at Punta del Este marked a turning point in several key respects. Not only did it rededicate the Chiefs of State to expanded internal efforts in education -- it also called for new multilateral initiatives in education and, what had been largely neglected in Inter-American programs -- in science and technology. The sharp focus on education and the unexpected thrust on science and technology came at the urging of the US Delegation. Key figures supporting the President at Punta del Este included Assistant Secretary of State Lincoln Gordon, Presidential Science Advisor Donald F. Hornig, USIA Director Leonard Marks and US Ambassador to the OAS Sol Linowitz -- all strong advocates of science and educational innovation and each promoting specific proposals. Mr. Gordon had personally proposed creation of two or three multinational institutes for science and technology. Discussions with US scientists and Latin American political and scientific figures caused the Department, however, to propose an Inter-American Science

Foundation. Most of these US proposals, transformed in the Declaration, were translated into programmatic action by the Inter-American Cultural Council at its Fifth Meeting held at Maracay, Venezuela in February 1968. 3/

At Maracay, Member State representatives pledged to support a $25 million program-- $15 million for science and technology and $10 million for education during the initial period. The United States pledged a voluntary contribution in accordance with the standard 66/34 formula. 4/ The Cultural Council also established at Maracay the machinery for coordinating and executing the two new programs and establishing guidelines for program operations.

d. Health and Family Planning

(1) Health

Prior to 1960, the US Foreign Assistance

3/ Final Report, Fifth Meeting of the Inter-American Cultural Council, Maracay, Venezuela, February 15-22, 1968.

4/ Statement delivered by Assistant Secretary Covey T. Oliver at Fifth Meeting of Inter-American Cultural Council, Maracay, Venezuela, February 15-22, 1968.

Program had emphasized healthy manpower development, the strengthening of preventive health services, the control of environmental health problems, the distribution of medical care and health education. During the Johnson Administration, with the development of the concept of "self-help," the Department sought, through use of loans rather than grants and technical assistance, to improve technical and institutional capacity to combat environment factors, whose debilitating effects on people slow the rate of economic growth. Specific programs included malaria eradication, water supply and sewage disposal projects, a child feeding program and continued participation in the support of the Pan American Health Organization, together with a concerted effort to supply a mobile rural health service in Central America.

(2) Family Planning

Simultaneously, the Department sought to promote understanding of the relation to economic growth of exploding population rates. The first obligation of $130,000 was made in 1964. This sum was used to assist in the development of two regional institutions. By FY 1968 we were assisting population programs in 14 Latin American countries and there were 9 regionally-funded projects. FY 1968 funds obligated for population and family planning programs totalled $7,925,000. Estimated requirements for similar support in FY 69 amounted to $10,627,000. While initially funds invested in "population" were used to define the impact of population growth on economic and social development, primarily for independent studies by international voluntary organizations, program emphasis had changed by 1968 to use of funds for private family planning associations and Latin American governments to provide services to women seeking assistance in family planning.

e. Private Sector Development

(1) Partners of the Alliance

Established in March 1964, the Partners of the Alliance grew during the Johnson Administration to a network linking private organizations and individuals of 35 states in the United States and 36 areas in Latin America. Department of State support reflected a desire to foster grass roots participation in the Alliance through people-to-people relationships.

Statewide committees exchanged program development teams which identified specific self-help projects that could be implemented through private sector support.

Initially an office in the Department helped to catalyze and service Partners projects. This function will ultimately be performed with greater operational flexibility by the National Association of the Partners of the Alliance, established by the US Partners Committees in 1967 for this purpose. The Association has functioned as a clearing-house for voluntary activities in Latin America in health, education, rural and industrial development.

(2) Trade Union Development

The Department, in cooperation with AID, the Department of Labor and the AFL-CIO, has sought for seven years to obtain the participation of the democratic trade union movements of Latin America in the process of economic growth. The chosen instrument was the American Institute of Free Labor Development (AIFLD) which, since its founding (June 1962) under prominent US labor and business leadership, has trained Latin American union leaders in trade union administration. US labor and business groups provided more than $3 million, and the Department $16 million in AID funds to this effort.

As of November 1963, some 4,800 student labor leaders had been trained in seven countries; by July 1968 these numbers had grown to more than 72,000 student labor leaders in twenty Latin American countries and the Caribbean Islands. An additional 500 leaders received intensive training at an AIFLD school in Front Royal, Virginia, and a university-level labor economics program entered its second year. The AIFLD completed over 5,000 worker housing units in seven countries, with 13,000 more in prospect. In addition, the AIFLD carried out small impact projects, administered by unions, for cooperatives, savings and loan institutions, clinics and sports facilities.

The personal involvement of men like George Meany (President, AFL-CIO), Joseph Beirne (President, Communications Workers of America), William Doherty (ex-President, National Association of Letter Carriers), and James Suffridge

(President, Retail Clerks Association) produced tangible results in the flow of money and manpower from US trade unions through the AIFLD and through direct union-to-union programs developed by international trade unions.

(3) Cooperative Development

Under mandate of the Humphrey Amendment to the Foreign Assistance Act of 1961, the Department has vigorously supported cooperative development in Latin America, in the hope of broadening the political, social and economic base of private sector participation in the Alliance for Progress. The Department's programs sought to reach 17,000 cooperatives, having 7,000 members, through technical assistance. Contracts with US cooperative organizations yielded the professional resources needed for these purposes.

Since 1964, with the help of the Credit Union National Association, the number of credit units grew from 1,000 to 2,550; membership doubled to 700,000; and savings increased ten-fold to over $52 million. Loans stood at $55 million in 1968. Twelve Latin American countries, with the Department's support, had established credit union programs by 1968.

The National Rural Electric Cooperative Association completed studies to determine the feasibility of rural cooperative electrification in 17 countries. The Department started the first pilot program in Ecuador in 1964. As of July 1968, seven loans totalling $15 million had been approved to help 27 rural electric cooperatives serving 100,000 families in Chile, Colombia, Ecuador, Nicaragua, Peru, Bolivia and Costa Rica. Host country contributions exceeded $9 million.

(4) Investment Guarantees

The Department, through AID's investment guaranty program, sought to overcome the reluctance of private lenders to commit their resources to ventures in less developed countries where commercial risks appeared greater than elsewhere. Except for housing, guarantees were used sparingly: As of July 1, 1968, AID had authorized guarantees for only eight Latin American projects totalling $39.5 million. Growing interest and knowledge by potential investors resulted in an increased number of applications toward the end of the period.

The initial objective of the housing guaranty program was to encourage builders to demonstrate advanced techniques and methods of financing, marketing, management and construction. As of March 31, 1968, 40 "Pilot Demonstration" projects, representing 36,000 family units, were under contract or authorized in the amount of $207 million.

The President's Balance of Payments Committee has restricted the extent of this program.

f. Housing and Urban Development

The rate of urbanization in Latin America is the highest of any under-developed region. Hence the Department of State has supported the provision of substantial amounts of financial assistance to this sector. But while the magnitude of assistance has been considerable, it has been inadequate to the total need. Housing construction could not keep up with family formation.

For that portion of the population which could afford various levels of housing, the great need was institutions which could mobilize local resources and channel them into long-term home mortgages at reasonable interest rates and reasonable downpayments. There existed also the expanding squatter settlements which could only be eradicated through drastic measures and extensive inputs of tremendous sums. The United States could do very little to help Latin America promote the orderly growth of metropolitan areas.

Through the combination of the Department (using AID funds) and the Inter-American Development Bank, every Latin American country participated in assistance for housing and urban development. IDB loans amounting to $287 million were used primarily for low income housing sponsored by national public housing institutions, with emphasis on self-help and cooperatives. In addition to its $500 million housing guaranty program, the Department made AID loans of $170 million, and provided for the release of $50 million of local currency. AID and IDB loans were matched by host country contributions and inputs to a considerable degree. These loans have produced over 400,000 dwelling units.

The Johnson Administration attached a lower priority to housing than that which existed through 1963. The reasons, never explicitly stated, for the lack of emphasis seemed to be: (1) while housing provides social overhead or infrastructure needed for economic development, other sectors may contribute more to economic development in relation to the funds required--e.g., housing generates little foreign exchange; (2) while housing as an industry is important to economic development, this contribution relative to that of other industries is not so great as to deserve special consideration on this score; (3) the Treasury Department, with US balance of payments problems in mind, necessarily had limited enthusiasm for loans which would entail little use of US inputs.

The Department's technical and financial assistance helped create savings and loan associations in Bolivia, Chile, Dominican Republic, Ecuador, El Salvador, Nicaragua, Panama, Peru and Venezuela. These associations made housing loans totalling $400 million and have $200 million in net savings. Still needed are similar systems in other countries, as well as assistance to develop secondary market facilities.

Through the Foundation for Cooperative Housing, the

Department created or strengthened housing cooperatives in several countries; since 1963 physical projects have been under way in Brazil, Colombia, Honduras and Panama.

The Department's technical assistance also helped to: establish national information systems on investment in construction; provide guidance on making market analyses to determine effective demand in individual urban centers; and train savings and loan personnel. Technical assistance to national public housing institutes, to facilitate improved management as well as communication with lower income groups, remains an unfilled gap.

The Department developed guidelines for an approach to urban development, and provided a limited amount of funds for formulation of urban plans.

Planning -- or lack of it -- remained a key bottleneck to the Department's housing policy for Latin America as of July 1968. Aspects of this problem include: the priority to be assigned to housing in national economic development plans; the role of housing as only one aspect of urban development; and the strengthening of local planning bodies so as to contribute to orderly metropolitan development.

g. Public Administration

(1) Tax Reform

The Charter of Punta del Este expressed the Department's policy with regard to seeking tax reform in Latin America:

> To reform tax laws, demanding more from those who have most, to punish tax evasion severely, and to redistribute the national income in order to benefit those who are most in need, while at the same time promoting savings and investment of capital.

AID agreed in the fall of 1961 to provide assistance in tax administration, while regional organizations -- the OAS, ECLA and IDB working together -- would work in the more sensitive field of tax policy. The US Commissioner of Internal Revenue, in consultation with the Department of State, created a Foreign Tax Assistance Staff to organize and direct the US program.

After five years of the Johnson Administration, there were 16 teams totalling about 56 tax advisers in Latin America, including a regional group in Guatemala coordinating tax administration assistance programs for the Central American Common Market countries and Panama. The Director of the IRS program described the approach as working with the host government "in devising methods to modernize and strengthen the administration of tax laws through such means as stepping up and refining techniques for the audit of returns and collection of taxes, streamlining organizations, installing improved systems and procedures, mechanizing high volume operations, strengthening overall management, and introducing a broad range of measures aimed at promoting voluntary compliance." Training of government tax officials, both in Latin America and through "observation" visits and formal classroom training of Latin American tax officials in the US, complemented this effort. As of July 1968, the Department had provided $8 million in AID funds to support tax administration reform under the Alliance.

(2) Statistical Modernization

For eighteen years prior to 1964, the United States sought to help developing countries to develop reliable census and statistical data. Then the US Census Bureau developed a procedure of household sample surveys for gathering data, not previously obtained through censuses, on health, food consumption, and nutrition, living standards, education, employment, consumption patterns, and other subjects of special interest for social and economic development. Accordingly, in 1964 the Department of State invited the Census Bureau to design a workshop to teach the objectives and methods of conducting household sample surveys; 54 statisticians from 15 Latin American countries attended the workshop in Mexico City during February and March 1965.

Following the workshop, the Organization of Central American States assumed responsibility for organizing a regionally coordinated program of household sample surveys. The Department, through the AID Regional Office for Central America and Panama, provided technical and financial support.

In South America, a Census Bureau expert visited six countries to evaluate technical and administrative needs and help stimulate programs. The result was that, with the help of the Inter-American Statistical Institute, ILO, FAO and the UN itself, programs did begin in several countries financially able to carry them out.

(3) Improved Administration

In helping to improve the administrative capacity of Latin American Governments -- so basic in their ability to implement development prospects -- the Department has provided technical assistance to existing governmental entities and helped to create new ones. As of December 1967, 24 public administration advisors were stationed in 14 countries. For the fiscal years 1964 through 1968, the Department brought 1,508 Latin American "participants" to the United States for training in development administration.

Existence of national development plans, from the earliest days of the Alliance for Progress, was a factor in external agencies' consideration of assistance. While many of the Plans represented little more than statements of gross needs and wishful thinking, they pointed to the need for technical assistance to planning bodies. Initially, the Department was reluctant to provide assistance in areas so closely associated with national policies; after discovering that the OAS was unlikely to provide much planning assistance, the Department supported direct contracts between planning consultants and host countries. Starting in September 1963, the Department supported six projects in state or local government administration in five countries -- Guatemala, Brazil, Nicaragua, Venezuela and the Dominican Republic. These projects were seen as one way to make awareness of development improvements penetrate to the grass roots.

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3. Regional Economic Integration

a. Latin American Free Trade Association (LAFTA) and Andean Group

At the start of the Johnson Administration, the two major Latin American economic integration groupings, the Latin American Free Trade Association (LAFTA) and the Central American Common Market (CACM), were only in their third year of existence. Both had made a good start, but reservations were beginning to be heard regarding the product-by-product approach to liberalization followed by the LAFTA. By 1966 there was a widespread feeling that LAFTA needed a new approach. These criticisms were instrumental in preparing the way for the historic commitment to create a Latin American Common Market (LACM), which the Latin American Presidents made at the 1967 Hemisphere Presidents' Summit Conference. The United States, for its part, declared its "firm support for this promising Latin American initiative." 1/

1/ Declaration of the Presidents of America, April 14, 1967.

The Summit Conference followed a period during which the Department of State had carried out intensive consultations with the Latin American governments and played the major role in developing positions to be taken at the Conference. The Department took the view that integration should be the major item on the Agenda, rather than US trade policy which some Latin Americans wished to emphasize. It also developed an approach to integration whereby the major US contribution would be the willingness to participate in a fund providing balance of payments, industrial and labor assistance. In President Johnson's March 13, 1967, Message to Congress on the forthcoming Latin American Summit Conference, he mentioned a possible US loan of $250-$500 million for this purpose. 2/

The Punta del Este Summit commitment to create a Latin

2/ Hearings Before the Committee on Foreign Affairs, House of Representatives, on H. J. Res. 428, March 14 and 15, 1967; Hearings Before the Committee on Foreign Relations, US Senate, on S. J. Res. 53, March 17 and 21, 1967.

American Common Market remained unimplemented in the fall of 1968. There were strong indications that some of the momentum behind Latin America's integration effort had been lost at least temporarily and that there would be some slippage in the Summit timetable. Nevertheless, the Latin Americans had not abandoned the commitment to create a common market. They were expected rather to continue their search for a viable and mutually acceptable regional economic integration system.

The US position regarding the essentially Latin American effort to create a common market was in any case clear. As President Johnson pledged on April 12, 1967, at the Summit, "If Latin America decides to create a common market, I shall recommend a substantial contribution to a fund that will help ease the transition into an integrated regional economy." This position had been reiterated by Department spokesmen at a number of inter-American meetings.

b. <u>Rationale for US Support</u>

Vice President Humphrey outlined the basic rationale behind US support for Latin American economic integration when he said on Pan American Day (April 14) in 1965,

> We support effective [Latin American] economic integration because it is essential to economic and political development under the Alliance for Progress. We support it because the modern Latin America which can emerge from effective economic integration will be a more effective partner in all the great common world tasks which confront those who share the common values of Western civilization. We support it because, as our postwar experience demonstrated, our most fruitful and mutually advantageous trade and financial relations are with industrialized and diversified areas of the world. Finally, we support it because economic integration is a fundamental part of the Alliance for Progress, the Alliance program to which we committed ourselves at Punta del Este.

Secretary of State Rusk elaborated on US policy regarding economic integration in a speech to the Second Special Inter-American Conference, November 22, 1965, stating,

> The future of Latin American economic integration is, of course, a question for you to decide. But we in the United States also have a deep and positive interest in it. We hope decisions to hasten integration will be taken sooner rather than later. Let no one in this hemisphere suppose that we in the United States are fearful of your unity--we welcome it. We

have, therefore, noted with pleasure that in recent meetings of Foreign Ministers in both the Latin American Free Trade Area and the Central American Common Market decisions have been taken which give promise of accelerating the integration process.

We cannot now foresee the final structure of a Latin American economic community. We cannot foresee the role which your Governments might wish the United States to play in relation to it. Our earnest hope is that it will maintain an intimate, cooperative, and constructive relationship with the United States. If together we can achieve that result, it would carry into the future the hemispheric tradition consecrated in the Act of Bogota and renewed and rededicated in the Charter of Punta del Este and the Alliance for Progress.

c. Implementation of Summit Decisions

Attempts to implement the Summit commitments on economic integration proceeded along two separate lines. The commercial policy and other measures necessary to convert LAFTA to a common market were discussed within LAFTA, and a mechanism for coordination between LAFTA and CACM established. The mobilization of financial resources for an adjustment fund was discussed in a series of meetings under CIAP auspices. Not being a member of LAFTA, the United States did not participate in the LAFTA deliberations. Since we are a member of CIAP, however, Department of State officials did participate as observers in the meetings on financial assistance. This gave the United States an opportunity for influencing decisions in this area.

At the Summit, the Presidents of the LAFTA countries instructed their Foreign Ministers to meet and agree on measures necessary to start converting LAFTA into a common market by 1970. The Foreign Ministers met August 29-September 1, 1967, at Asuncion, but could not agree on either the adoption of automatic tariff cuts or the establishment of a common external tariff. [3/] After the Asuncion meeting there was a general understanding that the Foreign Ministers would meet again in the first half of 1968. By mid-September of 1968 the meeting had still not been scheduled, and there were indications that neither the LAFTA Secretariat nor the LAFTA members were giving sufficient

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3/ Department of State Circular Airgram CA-2390, September 26, 1967.

priority to the important preliminary studies and negotiations that were necessary before the Foreign Ministers could agree on the measures proposed at the Summit.

Several of our Embassies in LAFTA countries had reported that their host governments were doubtful that the schedule for converting LAFTA to a common market would be met. 4/ The Department reluctantly concurred in this assessment. We believed, moreover, that any direct US intervention in this essentially Latin American effort would only be counter-productive.

Despite a lack of agreement among the Latin Americans on the establishment of the Latin American Common Market, the United States considered it desirable to push forward with the consideration of the financial implications of integration, since this was the aspect of integration where US decisions were important. Moreover, a knowledge of the types and amounts of integration assistance that might be

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4/ From Buenos Aires, Telegram 2135, February 10, 1968; from Rio de Janeiro, Telegram 4838, January 20, 1968.

available could be an important factor in the Latin Americans' own decisions.

By September 1968, however, there was no agreement between the Latin Americans and the United States nor -- and this was more crucial -- among the Latin Americans themselves as to appropriate types of assistance and amounts of resources to be devoted to each type.

Of the three types of support originally contemplated -- balance of payments, industrial and labor assistance -- the United States had in mind that balance of payments assistance would take the major part. The Latin Americans, however, were only able to agree in general terms that priority emphasis should be given a mechanism to further the reconversion of industries. Other CIAP meetings on the financial implications of economic integration would obviously be necessary before agreement could be reached on guidelines for integration adjustment assistance.

d. Other LAFTA Developments

Progress in LAFTA had been slow in recent years. The trade liberalization mechanisms set forth in the Treaty of Montevideo, the covenant which established the organization, had proven to be increasingly ineffective. The number of tariff concessions granted at the annual negotiating conferences dropped sharply after the first two sessions in 1961 and 1962. In addition the LAFTA members found it difficult to agree on a list of products to be added to the common schedule, a listing of goods to be traded duty-free by 1973. The lack of success of this "item-by-item" approach to trade liberalization was the basic reason why it seemed necessary for LAFTA to adopt a system of automatic tariff reductions, such as was agreed to by the Presidents of the LAFTA countries at the 1967 Summit.

Intra-regional trade made substantial gains between 1961 and 1968, although in 1967 it still represented less than 11 percent of the total trade of LAFTA countries. Between 1963 and 1967, intra-zonal imports increased 44 percent, while total imports were up only 23 percent. According to preliminary statistics, however, intra-regional trade actually fell slightly in 1967. This was the first year since the establishment of the organization that intra-zonal trade failed to increase.

e. Andean Subregional Group

Given the lack of progress in LAFTA after the Punta del Este Summit Meeting, perhaps the one promising new development in Latin American integration was the emergence of the Andean Subregional Group (Bolivia, Chile, Colombia, Ecuador, Peru, and Venezuela). In early 1968, however, this organization ran into difficulties in carrying forward the schedule it had set for itself. The difficulties stemmed in great part from concerns of the private sector in Venezuela, and to some extent in other countries, over potential dangers they saw to their immediate interests if subregional trade barriers were lowered.

When these difficulties arose, President Leoni of Venezuela indicated that he believed a fund for assistance to industries affected by integration was essential to overcome Venezuelan opposition to Andean integration. The Department of State took this statement into account in considering how the United States could help.

In a memorandum to the President on May 29, Secretary Rusk recommended that he authorize the Department to indicate to the Andean Government our willingness to make a loan of $25 million as a contribution to a subregional mechanism for providing adjustment assistance to industries affected by Andean integration. 5/ The President approved this recommendation. Departmental officials relayed this information to the Andean Governments. The offer was discussed first with the Colombians and presented in the form of an aide-memoire to the Government of Colombia for use in mustering support for the common market treaty. 6/ The Colombians assured us that the offer played a significant role in overcoming opposition so that the Andeans could go ahead.

The Andean Preparatory Committee, its Mixed Commission, accordingly, met in Cartagena, Colombia, July 29-August 8.

5/ Memorandum for the President from the Secretary of State, "Proposal to offer Integration Adjustment Assistance to Andean Sub-regional Group," May 29, 1968.

6/ Department of State Circular Telegram 200676 to US Embassies in Andean countries, July 11, 1968.

Bolivia, Chile, and Colombia reached agreement on the draft text of a sub-regional accord. While the other three countries still had reservations, a further meeting in October was to attempt to reach final agreement on the Accord, which would be the basic agreement for the entire Andean effort, including a common market. It was hoped that the Treaty could be signed on Bolivar Day, December 17, 1968.

f. Central American Integration Measures

(1) Central American Common Market

The organization of the Central American Common Market was a major self-help effort by the Central American countries, within the context of the Alliance for Progress. This effort has been the decisive influence on the State Department's policy and programs in Central America.

Following several years of negotiation, the Central American countries in December 1960 reached agreement on a broad general treaty for a common market -- the General Treaty of Economic Integration. This treaty was ratified by and became effective for Guatemala, El Salvador and Nicaragua in 1961. Honduras ratified in 1962. Following ratification by Costa Rica in 1963, the Central American Common Market became effective for all five Central American countries.

The General Treaty provided a bold new approach to establishing a free trade area, since it followed the general principle that internal free trade should be the general rule except for stated exceptions. The Treaty provided, for example, for the immediate elimination of a large proportion (74 percent) of the inter-country tariffs on goods of Central American origin; and it provided that most of the remaining tariffs on such goods should be removed within a five-year period. Consequently, with few exceptions, manufacturing and processing plants operating in any one of the Central American countries can sell freely in the other four.

(2) US Interest and Aid

The Central American Common Market was undertaken at Central American initiative. It had assistance, during its formation, from the UN's Economic Commission for Latin America (ECLA). Prior to 1961, the US Government was not officially related to this movement except as a member of ECLA. Nevertheless the early integration efforts were followed with much interest by many US officials, and this interest soon led to a more positive role.

In July 1962 the Department of State established a regional AID Mission (ROCAP) in Guatemala City to serve as liaison with the regional institutions and to administer an AID program directly in support of regional development. Since 1962, AID assistance through the regional mission has been a substantial part of the total AID program in Central America.

(3) Other CA Regional Institutions

The movement toward economic integration in Central America is much more comprehensive than creation of a common internal market. With the Department's encouragement, a number of regional institutions have been established and in an increasing number of fields there has been intergovernmental coordination at the ministerial level.

(a) SIECA

One of the principal regional institutions is the Common Market Secretariat (SIECA) - a staff unit to assist the five Central American Ministers of Economy in administration of the Common Market, as well as planning its future development. SIECA prepares projects, undertakes studies and supervises implementation of the Central American agreements. Through ROCAP, AID has extended assistance to SIECA on a range of activities that include regional economic planning, establishment of a regional statistical service and regional customs procedures.

(b) ODECA

In April 1965, in order to provide a more systematic structure for Central American integration, the charter of the Organization of Central American States (ODECA) was revised to provide overall supervision of the regional organizations at the Presidential and Ministerial level. Under this revised charter, the five Central American foreign ministers have met on several occasions and there have also been regional meetings at the ministerial level on manpower, social security, education and health.

The ODECA secretariat has received technical assistance through ROCAP in support of a regional textbook program, demographic studies, labor and manpower development, legal publications and statistics.

(c) The CA Monetary Council

From the time that the Common Market was organized, monetary union has been considered as an eventual -- although somewhat distant -- goal. In February 1964 the Central American Monetary Council was organized by the five Central Banks. The serious nature of monetary and exchange problems in Central America within the last two years has given the Monetary Council an increasingly important role in integration affairs. AID has recently provided consultants to advise on establishment of a regional stabilization fund.

(d) Bank for Economic Integration

Another regional institution which has begun to play an important role in development in Central America is the Central American Bank for Economic Integration. This regional bank, located in Tegucigalpa, Honduras, was created with the subscription of $4 million by each Central American Government, $2 million of which was paid in. The Bank opened its doors on September 1, 1961 and since that date has established a lending program in Central America that is now well above $100 million for industrial and infrastructure development.

The Department of State has supported provision of substantial assistance to the Bank, beginning with a development loan of $5 million in 1961 and grants of $1 million in 1961 and $2 million in 1962. Through FY 1967 the Department has provided $82.5 million in AID funds to CABEI for development projects. The Inter-American Development Bank has provided an additional $32 million.

(e) Fund for Economic Integration

A major part of the Department's assistance to CABEI is in support of the Central American Fund for Economic Integration. The Integration Fund had its origin in the meeting which President Kennedy held with the Presidents of the five Central American Governments and Panama in San Jose, March 1963. At this meeting President Kennedy proposed "a fund for Central American economic integration, to be made available through the Central American Bank for Economic Integration" and promised that the United States would make a substantial contribution to such a fund. In subsequent discussions with the Central

Americans it was established (a) that there would be a collateral Central American contribution to the Fund and (b) that the funds would be utilized to finance projects chosen in terms of regional rather than country criteria.

In July 1965 President Johnson for the United States and Enrique Delgado for CABEI signed a loan agreement under which AID extended $35 million as initial external financing for the Integration Fund. The Central American Governments, in turn, agreed to contribute $1.4 million each. In June 1967 AID authorized a second loan of $20 million.

At the invitation of ODECA, President Johnson met the Presidents of the five Central American countries in San Salvador on July 6, 1968. The meeting was devoted to a review of the Central American integration program and economic and social progress in the five Central American countries in accordance with the guidelines and commitments contained in the "Declaration of the Presidents of America" adopted at Punta del Este in April 1967.

After noting that there were still great obstacles to be overcome, the Central American Presidents agreed on a number of measures they would jointly undertake. These included: (a) ratification of the San Jose protocol to protect their balance of payments, (b) ratification of the uniform agreement on fiscal incentives, (c) studies with a view to establishing a Central American monetary stabilization fund, (d) adoption of measures to diversify agricultural production, (e) to perfect the Central American Common Market with successive stages including a Central American Capital Market and free movement of persons, and (f) to provide regional integration institutions with the necessary resources to meet their growing responsibilities.

For his part, President Johnson reiterated the US support for the integration movement in Latin America generally and in Central America specifically. He referred to and reaffirmed the US commitment, made in the Declaration of the President of America, to the movement of Central

American economic integration, and to that end he authorized the negotiation of new loans to Central America totalling $65 million.

g. Regionalism in the Caribbean

The Johnson Administration has tended to follow the policy of other recent Administrations in generally maintaining a hands-off policy with regard to the arrangements that European powers have made for the independence of some or all of their Caribbean possessions. We have, however, tended to look with disfavor on the possibility that numerous independent micro-states might emerge in the hemisphere. Instead, we have strongly favored a regional approach for the smaller islands of the area. In addition, we have encouraged the establishment of the Caribbean Development Bank and we have generally looked with favor on the establishment of a Caribbean Free Trade Area (CARIFA).

h. Physical Integration

The Charter of Punta del Este in 1961 recognized that the promotion and coordination of transportation and communication systems could help speed economic integration. Soon after the establishment of LAFTA, experts from member countries met to consider transport problems; attention soon shifted, however, from a primary concern with transport as an obstacle to economic integration to a search for ways to use the Treaty of Montevideo as a basis for developing a Latin American merchant fleet. Physical integration efforts continued largely along these lines until the 1967 Punta del Este meeting of American Presidents, during which the Presidents declared that "we will lay the physical foundations for Latin American economic integration through multinational projects." 7/ They went on to point out "it is necessary to build a land transport network and improve all types of transport systems to facilitate the

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7/ Declaration of the Presidents of America, April 14, 1967.

movement of persons and good throughout the hemisphere; to establish an adequate and efficient telecommunications system and interconnected power system." 8/

After Punta del Este, additional resources were allocated to the IDB Preinvestment Fund for Latin American integration that had been established in 1966 to finance studies of multinational projects. 9/ Furthermore, IDB members agreed to provide the Bank with additional capital resources that would enable it to finance at least $300 million in multinational projects over the next three years. 10/ These actions left the assignment of priorities as the main item agreed at the Summit in this area on which no action had yet been taken.

At a meeting of the National Security Council on March 6, 1968, President Johnson indicated that it would be desirable

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8/ Summit Action Program, Chapter II, April 14, 1967.

9/ NAC Action 67-325, December 7, 1967.

10/ Special Report of the NAC, House Doc. #117, May 3, 1967, p. 7.

to give increased emphasis to accelerating physical integration and thereby facilitate the creation of the Latin American Common Market. He expressed the belief that a task force should be established to recommend priorities and guidelines for carrying out the work of physical integration.

Before proceeding further, the Department of State consulted with key Latin American Governments and individuals such as the Chairman of CIAP and President of the IDB. The response was favorable. [11/]

The President accordingly, on the occasion of signing the Protocol of Amendments to the OAS Charter on April 23, suggested to his fellow Presidents and to those who direct the Alliance for Progress, "that they establish a high-level task force, the finest collection of planners that we can bring together, under the leadership of a distinguished Latin American, to prepare a five-year plan for speeding up the physical integration of our own hemisphere."

11/ Department of State Memorandum for the President, "Task Force to Plan Latin American Physical Integration," April 4, 1968.

Upon learning of President Johnson's statement, the Board of Governors of the Inter-American Development Bank, then meeting in Bogota, adopted a resolution, proposing: "That the Bank undertake promptly, in conjunction with CIAP, to initiate the establishment of a task force to develop a five-year plan and action program for physical integration projects in Latin America." 12/ In turn, CIAP, at its 15th meeting in early May 1968, requested its Chairman "to work with the President of the IDB and the appropriate representatives of other institutions, in formulating specific proposals relative to procedures, mechanisms and possible financing..." 13/

After these basic decisions were made, however, it became clear that certain Latin American Governments, while strongly supporting the principle of accelerating physical integration,

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12/ IDB Resolution AG-6/68, 9th Annual Meeting, April 25, 1968.

13/ CIAP Resolution IV, 14th CIAP meeting, May 3, 1968.

were uncertain as to how to proceed. Brazil, in particular, felt strongly that "international bureaucracies" and international technicians" (the IDB and OAS) could not play a key role in recommending priorities. 14/ Brazil was supported by Argentina and Mexico in stressing the essentially political nature of decisions on priorities and the central role of governments in making the decisions. At the same time, however, both Argentina and Mexico strongly favored action to accelerate physical integration and wished to push forward, while maintaining government control.

In the face of these views, the Chairman of CIAP and the President of IDB collaborated in developing a proposal for strengthening the existing OAS-IDB working group on physical integration so as to carry out the task proposed by President Johnson. 15/ This proposal was considered by the

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14/ Department of State Circular Airgram CA-8149, May 20, 1968.

15/ CIES/1342, "Proposals by the Chairman of CIAP for invigorating the Work of CIAP, the OAS, and the IDB in Multinational Projects," June 24, 1968.

7th Special Session of the IA-ECOSOC, June 26-28, 1968. After considerable debate, the IA-ECOSOC instructed CIAP to intensify its current work on physical integration and to develop suggestions on how to speed it up. After governments have analyzed these suggestions, the IA-ECOSOC is expected to agree on terms of reference for CIAP's further work on physical integration.

4. Congress and the US Commitment

a. General Legislative Trend

Shortly before President Kennedy's death, Secretary Rusk decried Congress' increasing tendency to use the foreign aid bill as a means of legislating foreign policy.[1/] With respect to Latin America, this trend continued during the Johnson Presidency. On the other hand, Congress passed legislation and the Senate approved treaties implementing a number of significant Administration initiatives without major opposition. (These included the Chamizal Treaty with Mexico, OAS Charter Amendments, the Inter-American Development Bank Act and a number of acts providing for joint projects with Mexico on the border.) Legislation of a different sort, which was controversial or which tended to restrict the Administration's freedom of action in its foreign policy toward Latin America, is described below.

1/ The Secretary's News Conference, November 8, 1963, Department of State Bulletin No. 1274, November 25, 1963, p. 810.

b. The Trend in Appropriations

Congressional overall appropriations for foreign aid tended to decline during the Johnson Presidency, but appropriations for Latin America resisted the trend until 1968. Appropriations for AID grants and loans to Latin America ran about $500 million a year during Fiscal Years 1963 through 1967. The appropriation declined in FY 1968 and fell under $450 million in FY 1969. On the other hand, appropriations for the Inter-American Bank, which only amounted to $60 million in FY 1963, were running at the rate of $300 million a year during FY 1967, 1968 and 1969.

The maximum amount of military assistance and sales to Latin America, which is not specifically earmarked in the annual Congressional appropriation, was reduced from $85 million to $75 million a year by the Foreign Assistance Act of 1967. Grant military assistance peaked in FY 1966 but the value of military sales continued to rise through 1968.

The dispute which developed between the Administration and the Congress (particularly the Senate Foreign Relations Committee) over foreign policy did, however, result in several

Administration defeats in 1967 on the question of foreign appropriations, including appropriations for Latin America. Besides rejecting the Administration's attempt to replace the Foreign Assistance Act with a new statute, the Congress refused to appropriate money for more than one year, reduced the FY 1968 appropriations for Latin America and rescinded the FY 1969 Alliance for Progress appropriation which had been adopted the previous year.[2/] The latter action raised Latin fears that the United States would not meet its long-term Alliance commitments. Conservatives in Congress who have traditionally opposed foreign aid were joined in opposing the Administration by liberals like Senator Wayne Morse, who feared that some Alliance for Progress money might be used to bolster Latin American dictators.[3/] Congress also refused to make the advance commitment, requested by the

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2/ Public Law 90-137 approved November 14, 1967.

3/ Congressional Record of August 17, 1967, Senate debate on aid to Latin America.

President, to increase Latin American aid prior to his departure for the Summit Meeting at Punta del Este in April 1967. 4/

c. Cuba

In its efforts to isolate Cuba, Congress has sought to place restrictions in foreign assistance measures so as to discourage contact between third countries and Cuba. The Foreign Assistance Act of 1963, which President Johnson signed on December 16, tightened existing restrictions on aid to countries which traded with Cuba. In 1966, the prohibition against such aid was made absolute by removal of the President's discretionary authority to waive the prohibition in the case of non-strategic economic goods being sent to Cuba. The 1966 Act also prohibited assistance to countries officially participating in international conferences called to plan activities of insurrection or subversion against the United States or countries receiving

4/ The Latin America Summit Meeting, Message from President Johnson to Congress, Department of State Bulletin No. 1449, p. 543.

US aid. (This provision was a reaction to the so-called Tri-Continental Conference held at Havana in January 1966.)

In the 1967 Foreign Assistance Act amendments, Congress called on the President, in administering the military assistance program, to give priority to the needs of countries threatened by "active Communist or Communist-supported internal subversion." 5/ It also urged that the President suspend all foreign assistance, including PL 480 aid, to any nation which had broken diplomatic ties with the United States.

d. Arms Sales and Transfers

Congress in 1967 became concerned about a possible arms race in Latin America and other underdeveloped areas. The 1967 Foreign Assistance Act prohibited the use of military assistance funds and the Defense Department's credit sales revolving fund, to finance sale of sophisticated weapons systems (such as missile systems and jet aircraft) for

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5/ Public Law 90-137 approved November 14, 1967.

military purposes to most underdeveloped countries -- including all of Latin America -- unless the sale should be vital to our security and the President should so notify Congress. The Act also withheld an equivalent amount of economic assistance to any such country using its own resources to purchase sophisticated weaponry.[6/]

Another bill to authorize the extension of loans of US Navy warships to friendly foreign nations, among them a number of Latin American countries, passed largely unnoticed in the House but ran into Senate opposition. The Senate removed the Presidential discretionary authority to extend the loans for five years. The Senate Foreign Relations Committee report on the bill had expressed doubt as to whether loans to most underdeveloped countries, particularly those in Latin America, furthered our long-range foreign policy objectives.[7/] In Conference, however, the House prevailed with the result that two new loans were

6/ Public Law 90--137 approved November 14, 1967.

7/ Senate Report No. 734 of November 7, 1967.

authorized and the President was given authority to extend any loan granted or extended under the bill for a maximum of five years.

e. Immigration

The epoch-making immigration legislation adopted by Congress in 1965 provided a quota of 120,000 a year for immigration to the United States from Western Hemisphere countries. The Department opposed the institution of a Western Hemisphere quota[8/] but finally accepted it as the price for getting Congressional agreement to the repeal of the national origins system. The Western Hemisphere quota became fully effective on July 1, 1968.

f. International Coffee Agreement

In 1964 Congress failed to pass HR 8864, a bill to enable the United States to comply with its obligations under the International Coffee Agreement Act of 1962. The action

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8/ Secretary Rusk's News Conference of August 27, 1965 (Department of State Bulletin No. 1369, September 20, 1965).

was a blow to Latin American coffee producers.[9/] The following year, however, after coffee prices in the United States came down somewhat, a similar bill was easily passed.[10/]

9/ Statement by Under Secretary of State Ball to the Senate Finance Committee, January 27, 1965 (Department of State Bulletin No. 1339 of February 22, 1965).

10/ Public Law 89-23, approved May 22, 1965.

5. Trade

a. Commodity Agreements

The Latin American countries were impressed with the effectiveness of the Inter-American Coffee Agreement of 1941-48 in raising and stabilizing coffee prices in the US when European markets were closed to them by the second World War, and have long urged wider use of international commodity agreements as a method of stabilizing and expanding the export receipts of countries depending heavily on a limited number of basic commodities.

The United States, historically a strong advocate of unrestricted trade, has looked on commodity agreements as an exceptional rather than a general remedy for problem commodities. It has, however, recognized the desirability of inter-governmental action to stabilize prices of some commodities under certain conditions, and under the Johnson Administration much attention was devoted to the possibility of negotiating commodity agreements involving a number of products of export interest to Latin America.

During the years 1965-67, when revision of the OAS Charter was under discussion, the United States concurred in a number of resolutions and statements of agreed economic policy which emphasized the importance of commodity agreements as a method of stabilizing the income of the less developed countries.[1/]

This concept was echoed in the Declaration of the Presidents of America, signed at the 1967 Inter-American Summit, in which there was agreement:

> "to combine efforts to strengthen and perfect existing international agreements, particularly the International Coffee Agreement, . . . and to explore all possibilities for the development of new agreements. . ."[2/]

The International Coffee Agreement[3/] is the most important commodity agreement from the standpoint of Latin American

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1/ OEA/Ser.E/XIV.1 Doc. ii, see especially Article 3.

2/ OEA/Ser.C/ix-1, Punta del Este, April 12-14, 1967.

3/ Treaties and other International Acts. Series 5505 trade. Coffee ranks first among Latin America's agricultural exports, and in 1966 accounted for $1.6 billion in exchange receipts - about 19 percent of Latin America's total export trade. The Coffee Agreement was signed by the United States on September 28, 1962. The Senate gave its consent to ratification on May 21, 1963. Implementing legislation was not passed by Congress until May 22, 1965, but President Johnson approved the deposit of the instrument of ratification on December 27, 1963, making it possible for the Agreement to enter into force provisionally in the summer of 1963 and definitively in December 1963. The United States could not fully implement the Agreement until the International Coffee Agreement Act of 1965 was enacted in May 1965.

A number of problems were encountered in implementing the Agreement during its initial five-year term, primarily relating to enforcement procedures and production control. Most of the enforcement problems had been brought under control, however, by the time that extension of the Agreement came up for consideration in 1968. The revised agreement provided more severe penalties for over-production, and also provided for establishment of a diversification fund to assist countries to shift out of coffee production into other types of agriculture. President Johnson offered, at the Summit Meeting, to lend $15 million to the Diversification Fund and to match loans from other consumer members of the Agreement up to $15 million more, in an effort to bring coffee production more quickly into balance with demand. The Fund is to become operative in 1969, after entry into force of the new Agreement.

A new International Grains Arrangement[4/], which replaces the International Wheat Agreement of 1962, was negotiated in the summer of 1967.

Proposals for an international cocoa agreement were under discussion throughout the term of the Johnson Administration. At a meeting in Geneva in August 1967 the major producing and consuming countries reached agreement on the

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4/ US Department of Agriculture, FAS-M-195, November 1967.

general principles which should govern such an agreement. A negotiating conference was held in December 1967, with inconclusive results. There were meetings of working groups in 1968 at which a number of controversial issues were ironed out, but it is unlikely that another negotiating conference will be scheduled prior to 1969.

The International Sugar Agreement, of which the United States was a signatory, became inoperative in 1961 when the Cuban Government withdrew. The United States participated in a number of conferences convened during the years of the Johnson Administration to review the world sugar situation and determine whether a basis existed for developing a new agreement. The United States decided against attending the Sugar Negotiating Conference which was convened September 23, 1968 under UNCTAD auspices because the quota proposed for Cuba was considered too large and the potential benefits to Cuba out of proportion to those which would accrue to other exporting countries.[5/] A draft agreement was approved by the

5/ Inter-office Memorandum from ARA/LA-Mr. Vaky to E/ORF-Mr. Schiff, September 5, 1968.

Conference on October 23, and is expected to enter into force provisionally on January 1, 1969. Neither the European Economic Community nor the United States is presently a signatory.

In the absence of an international sugar agreement, the United States Sugar Act has greatly augmented the earnings of the sugar producing countries of the Hemisphere, by assigning to them a large part of the former Cuban quota. The Sugar Act of 1965[6/] assigned import quotas to Latin American countries totaling more than 86 percent of all sugar imported from foreign countries other than the Philippines.

The International Tin Agreement was first negotiated in 1956 for a period of five years. The United States did not participate in the negotiation. When the Agreement was extended in 1961 for an additional five-year term the United States participated as an observer only. The United States played an active part in negotiating the third Tin Agreement in 1965, but never became a member. The US delegation to the third negotiating conference had succeeded in deleting

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6/ Sugar Act of 1948 as amended by PL 331, 89th Congress, approved November 9, 1965.

from the revised Agreement all provisions which were unacceptable from the standpoint of US trade policy, and it was generally understood among the producer members that the United States would become a signatory. The papers authorizing signature by the US delegation had been approved by the White House staff, and were being held for the President's signature at such time as the six major producing nations should have signed the Agreement. In mid-December 1965 one of the major producers, Malaya, reversed its former position and stated that it would not sign. By the end of December other producing countries had persuaded Malaya to sign, but it was by that time too late for the United States to get authorization papers to the President for signature before the December 31 deadline.

The United States might still have become a party to the Agreement through the assession procedure provided for in the Agreement itself. However, at a meeting which Under Secretary Mann called in the spring of 1966 for consultation with industry representatives, some, who had not previously expressed disapproval of US participation, raised strong objections. This opposition arose not so much from tin consuming industries as from mining interests which feared that US participation in the Tin Agreement might lead to a proliferation of international agreements in the metals field, including such metals as copper, lead, and zinc, to which there would have been strong industry objection. At approximately this time the Bolivian Government, in a formal note, expressed hope that the United States would not accede to the agreement. Bolivia is the only major tin producer in Latin America. With objection expressed by both the domestic industry and the principal Latin American producing country, the United States decided not to apply for accession. The third Agreement became effective July 3, 1966.

b. Anti-protectionism

The United States has followed a liberal trade policy since 1934 when Secretary of State Cordell Hull's Trade Agreement Program was initiated. Through a long series of tariff negotiations duties were reduced from an average rate of 50 percent (on the value of dutiable imports) for the 1931-35 period to 12 percent in 1966. The major tariff negotiation was carried out during the Johnson Administration; the so-called Kennedy Round brought a further reduction in duty of as much as 50 percent on some products and covered products which the United States imported to a value of over $7.5 billion in 1966. Of this total about $430 million came from Latin America. The value of Latin American products covered by the latest tariff reductions was relatively small because 44 percent of their exports to the United States already entered duty-free.

The Latin American countries placed great emphasis, at all inter-American conferences dealing with trade, on the "trade not aid" theme and on the importance of removal of trade barriers by industrialized countries as a means to help the under-developed world expand its markets and provide for a rapidly growing population. Pending complete elimination of trade restrictions they asked that, at a minimum, no new restrictions be imposed. The United States accepted various formulations of "standstill" agreements[7] with respect to new trade restrictions, as a party to the GATT, as a participant in UNCTAD, and as a member of the OAS.

The Charter of the Organization of American States, as revised by the Buenos Aires Protocol of 1967, provided that Member States "should make individual and united efforts to bring about . . . reduction or elimination, by importing countries, of tariff and non-tariff barriers that affect the exports of the Members of the Organization . . ."[8]

The Declaration of the Presidents of America, signed by President Johnson in April 1967, stated that ". . . the Presidents . . . agree to ensure compliance with international commitments to refrain from introducing or increasing tariff and non-tariff barriers that affect exports of the developing countries, taking into account the interests of Latin America."

7/ Position Paper for 5th Meeging of IA-ECOSOC, Vina del Mar, June 15, 1967, Agenda Item 3B. Standstill

8/ OAS Charter OEA/Ser. E/XIV.1 Doc. 11, February 27, Buenos Aires, Argentina, Article 37.a.

The United States has made an effort to comply with these undertakings, but it did not regard them as prohibitions against any new barriers, regardless of circumstances. The Latin American countries tended to regard the standstill resolutions as binding commitments.

During President Johnson's administration many actions were taken, in addition to the Kennedy Round tariff reductions, to lower trade barriers and facilitate trade expansion. The President's first trade policy decision was the veto of an import labeling bill which, in its administration, would have been trade restrictive. Residual fuel oil import curbs were relaxed, broadening the market for Venezuelan petroleum. Special "escape clause" tariff or quota protection of half a dozen industries, including quotas on lead and zinc, which are important in trade with Latin America, was either abolished or materially reduced between 1963 and 1968. Duties on two products of special interest to Latin America - soluble coffee and Ecuadoran straw hats, were eliminated; the excise tax on copper, important to Peru, Mexico and Chile, was suspended.

A few restrictive measures were enacted during the Administration. The Meat Import Quotas Act (PL 88-482) would limit imports of meat under certain conditions. However, the provisions of the law were sufficiently liberal so that it was never necessary, from the time it was enacted in August 1964 through the first three-quarters of 1968, to impose quotas. It was necessary to request exporting countries to impose voluntary restrictions on their exports during the fourth quarter of 1968 to avoid triggering of import quotas under PL 88-482. Restrictions were imposed on imports of cotton textiles from some countries under the terms of a "Long-term Cotton Textile Arrangement", negotiated within the GATT framework. A number of Latin American countries voiced strong objection to the restrictive features of this arrangement, and several refused to negotiate agreements under it, preferring to have restrictions imposed on them unilaterally by the United States. However, imports from these countries did increase greatly, even with the restrictions imposed.

In 1967 a groundswell of protectionism began to appear in the United States, as the mounting cost of the Vietnam war resulted in inflationary price increases at home and a great increase in imports from abroad. Bills were introduced into Congress which would have placed new import restrictions on woolen and synthetic textiles and apparel (in addition to the cotton fabrics already under control), steel, meat and products, lead, zinc, watches, fish fillets, strawberries, honey and stainless steel flatware. Bills were also introduced to make more restrictive the regulations on imports of petroleum and products, dairy products and cotton textiles. By October, when the Senate Finance Committee had scheduled hearings on these measures, there was widespread fear throughout Latin America that their trade would be seriously injured if these bills were passed.

On October 23, 1967, representatives of 21 Latin American countries presented a joint note expressing grave concern at the apparent trend toward protectionism in the United States, and directing attention to the undertakings the Government had accepted not to impose new restraints on trade.[9] A second

9/ Note, October 20, 1967, to Secretary Rusk from 21 Latin American Ambassadors; Reply from Assistant Secretary Oliver, November 6, 1967.

note was presented at the same time by the Latin American meat exporting countries, asking the Administration to oppose any measures which would increase meat restrictions.[10/] The Embassies of Mexico and Argentina had previously presented separate notes expressing their Governments' concern at a bill before Congress which would have increased the duty on honey from one to three cents a pound.[11/] In addition to formal protests from governments, there were expressions of popular concern. Our Embassies throughout Latin America reported press campaigns to build up opposition to the proposed US trade measures. The Venezuelan Congress passed a resolution calling

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10/ Memorandum, October 20, 1967 to Secretary Rusk from 14 Latin American Ambassadors, on meat; Department's reply, November 14, 1967.

11/ Note from Embassy of Mexico, October 9, 1967, on honey; Note from Ambassador of Argentine Republic, October 3, 1967; Memorandum of Conversation, October 18, 1967, between Deputy Assistant Secretary Sayre, Minister Saenz of Embassy Mexico and Mr. Sanchis Munoz, Agricultural Counselor, Argentine Embassy.

on the Government to oppose any US measures which would adversely affect sales of Venezuelan petroleum products. Inquiries on the terms of specific measures, and assessment of their effect on the trade of individual countries, were a daily affair for many months.

The Johnson Administration launched a strong attack against the protectionist forces which had been building up. Secretary of State Rusk and four other Cabinet members testified at the Senate Finance Committee Hearings in October 1967, and developed the Administrations's case for continuance of a liberal trade policy from all angles, stressing the adverse effect which reversion to protectionism would have on our relations with other trading nations and the adverse effect which anticipated retaliatory action might have on both industry and agriculture in the United States. 12/

12/ Statement of Secretary Rush before Senate Finance Committee, October 18, 1967.

Protectionist sentiment again came to the fore in January 1968, when the President reported a mounting deficit in the US balance of payments and asked the Congress to enact legislation to impose new taxes and take certain other measures needed to restore equilibrium. The proposals included border taxes, special taxes on tourist expenditures, lower limits on duty-free entries by tourists, and strict limitations on the flow of United States capital abroad.

The Latin American countries again took joint action to assure that their interests would not be prejudiced. On March 8, 1968, they presented a note, signed by twenty Ambassadors, referring again to US commitments made in the Declaration of Presidents of 1967, and stating that the measures under consideration, if adopted, would be so serious in their impact "that our Governments would find themselves compelled to consider how they could protect their interests."[13/]

13/ Note to Secretary Rusk from 20 Latin American Ambassadors, dated March 8, 1968, re border taxes and other restrictive measures; reply from Assistant Secretary Covey T. Oliver, March 22, 1968.

The Administration decided not to recommend to the Congress legislation to impose border taxes. Its request for travel restrictions contained an exemption for countries of the Western Hemsiphere (and was never enacted). Latin American fears of new restrictions were allayed somewhat, and they were further relieved when the President sent a special message to Congress on May 28, 1968, strongly endorsing a liberal trade philosophy and requesting enactment of a bill - the Trade Expansion Act of 1968 - to grant the Administration authority to negotiate further tariff reductions.

Latin America remained watchful, nevertheless, regarding the numerous US trade-restrictive bills and their movement through Congress. When the Chairman of the House Ways and Means Committee announced that he would open hearings in June on all restrictive measures before Congress, the Latin American ambassadors presented a follow-up to their note of the previous October, again requesting that Secretary Rusk make known to the Congress the grave concern with which their countries viewed these restrictive measures and use his influence to prevent the passage of measures which would injure their trade.[14/] The Secretary appeared before the Committee on June 10, 1968, and stated the Administration's case in favor of trade liberalization. A copy of his testimony was sent to each of the Latin American Ambassadors, with the response to their latest note.[15/]

When Congress adjourned in October 1968, only two restrictionist measures had been passed by both Houses. One would have denied import quotas on extra-long-staple cotton to countries with which the United States was not in diplomatic relations (Egypt and the Sudan). The bill was vetoed by the President. The other, which was signed by the President, increased the rates of duty on certain categories of wool fabrics - goods which are not important, however, in US Latin American trade.

14/ Note, June 3, 1968, to Secretary Rusk from the Ambassadors of 22 Latin American countries on restrictive measures before the Congress.

15/ Note, June 19, 1968, from the Secretary of State to 22 Ambassadors, with copy of Secretary Rusk's statement.

c. Trade Preferences for Latin America 16/

In the early 1960s, Latin Americans, experiencing a declining share in world trade along with balance of payments problems, tended increasingly to blame their developmental shortfalls on alleged barriers to their exports. At the same time, US trade policy continued to embody the long-established principle of unconditional most-favored-nation (MFN) treatment.

The Latins particularly resented the fact that most other developing countries enjoyed preferential access of one sort or another to some developed markets while they, historically, had had no preference in any market. (They overlooked certain very valuable advantages provided Latin America by the US sugar legislation, justified in part by the GATT principle under which quantitative restrictions are allocated on the basis of historic supplier.)

16/ See also Chapter IX, Section C, "Trade Preferences for Developing Countries", below.

Originally, the Latins hoped to redress their disadvantaged situation vis-a-vis other developing regions through a system of generalized preferences from all developed countries for the benefit of all developing countries. This approach was formulated at Alta Gracia in 1963 and influenced the 1964 UNCTAD position endorsed by all LDCs. At the same time there was uncertainty whether UNCTAD would achieve what the Latins were seeking, and some at least "cooled" toward the UNCTAD-alliance and emphasized the desirability of selective or unilateral preferences extended to them by the United States. The reasons cited for this change were largely strategic, to force the abandonment of selective preferences in Europe. Thus, in a letter of August 10, 1965, to the Presidents of the American Republics, the Inter-American Committee on the Alliance for Progress (CIAP) stated that

> Although we are opposed to the creation of spheres of influence, we commend for urgent consideration, a policy of transitory, defensive measures to compensate for such preferences. It is inequitable for the products of some of the developing countries

> to enjoy preferences outside the hemisphere, plus non-discriminatory access to the US market. A policy to compensate for such discrimination against Latin America should be worked out pragmatically, on a commodity-by-commodity basis, with provisions which would facilitate return to non-discriminatory trade as discriminating practices are removed elsewhere.

The possibility of temporary "countervailing" preferences was a continuing theme with some Latin Americans; however, there was no unanimity on the issue. Some Latin countries foresaw the risk that countervailing preferences might harden existing preferences into new world trading patterns; others feared increasing dependence on the United States. Still others feared Europe's retaliation through a further narrowing of Latin America's access to its markets.

The Latin theme of compensatory preferences was again repeated in a June 1968 report by the CIAP Chairman in which the United States was urged to study, with the other members of the Alliance, "the possibility of creating a system that will enable the Latin American countries' exports to enjoy no less advantage than that now enjoyed by the exports of other developing regions, and in this and other ways to insure that Latin American commodities will not be discriminated against."17/ In the same report, the CIAP Chairman proposed "a system of compensatory preferences by the United States as long as non-reciprocal preferences are not extended to all developing regions in the world."

At one point, having in mind Latin concerns and also as a possible way of dramatizing US support for the Alliance efforts, a proposal was advanced by Assistant Secretary for Inter-American Affairs Mann in early 1965, in an internal confidential memorandum, that the United States consider entering into a special trading arrangement with Latin America. Although a working group was authorized, it was never established, and in fact when Assistant Secretary Mann became Under Secretary of State for Economic Affairs he decided to

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17/ Report by the Chairman of the Inter-American Committee on the Alliance for Progress to the Seventh Special Meeting of the Inter-American Economic and Social Council at the Ministerial Level (CIES/1332, 14 June 1968), p. 46.

to re-affirm the traditional MFN policy. In a speech given in Philadelphia, April 9, 1965, he stated:[18/]

> The press has spoken a great deal about our attitude towards preferences. As you know, we have followed since the 1930s a policy of liberal, non-discriminatory trade. That is still our policy. We have made no proposals or counter-proposals about trade preference nor do we have any plans to do so. Developing nations themselves are not wholly in agreement on how the proposed preferences should be applied in practice and we would in any case have to know a great deal more about their several views before we would come to conclusions.

In September 1965, Assistant Secretary Solomon testified before the Subcommittee on Inter-American Economic Relationships of the Joint Economic Committee.[19/] in his

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18/ Address by Thomas C. Mann, Under Secretary of State for Economic Affairs, before the Third Session of the Sixty-Ninth Annual Meeting of the American Academy of Political and Social Science, Philadelphia, Pennsylvania, Friday, April 9, 1965.

19/ Statement of Anthony M. Solomon, Assistant Secretary of State for Economic Affairs, before the Subcommittee on Inter-American Economic Relationships of the Joint Economic Committee, Friday, September 10, 1965.

testimony, Solomon concentrated primarily on the idea, advanced in the above mentioned CIAP letter of 1965, that the United States, as the dominant economic power in the Western Hemisphere, should accord the Latins trade preferences similar to those enjoyed by the newly independent African nations in the European Economic Community. He examined a number of special trading relations between the United States and Latin America that were theoretically possible and considered the implications. Solomon concluded that the best approach to Latin American economic stability lay not in constructing new preferential trade agreements, but in eliminating discriminatory arrangements that already existed. He hinted, however, that should efforts to win world-wide acceptance of this policy prove unsuccessful, the United States might reconsider its policy. Assistant Secretary Solomon said

> The course we should follow seems to me reasonably clear. We should seek ways by which existing discriminatory arrangements can be phased out or their injurious effects neutralized; and we should continue to counsel others against the institution of new preferential arrangements.

> It may be, however, that our efforts in this direction--and we intend to pursue them vigorously--will be unsuccessful. In that event we may want to reconsider our own historic trade policy of non-discrimination. We must retain sufficient flexibility in our policies to adjust to the evolution of the world economy and policies adopted by other major countries of the world.

In November 1965, the United States proposed that the Organization for Economic Cooperation and Development (OECD) undertake a "full and detailed study of trade preferences, to be prepared expeditiously and conscientiously, of the merits and demerits, the implications and consequences, in the short and in the longer terms, of the alternative courses of action which are open to us."[20/] Subsequently, an OECD Special Group on Trade with Developing Countries was established to undertake the study, with the aim of formulating constructive and concerted policies for encouraging increased export earnings by the developing countries.

At the Punta del Este Conference in April 1967, President Johnson indicated willingness to consider a major change in US trade policy when he said

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20/ Statement by Thomas C. Mann, Under Secretary of State for Economic Affairs, before the Ministerial Council Meeting of the Organization for Economic Cooperation and Development, Paris, France, November 25, 1965.

We have been examining the kind of trade intiatives that the US should propose in the years ahead. We are convinced that our future trade policy must pay special attention to the needs of the developing countries in Latin America and elsewhere in the world.

We have been exploring with other major industrialized countries what practical steps can be taken to increase the export earnings of all developing countries. We recognize that comparable tariff treatment may not always permit developing countries to advance as rapidly as desired. Temporary tariff advantages for all developing countries by all industrialized countries would be one way to deal with this.

We think this idea is worth pursuing. We will be discussing it further with members of our Congress, with business and labor leaders, and we will seek the cooperation of other governments in the world trading community to see whether a broad consensus can be reached along these lines.

President Johnson also joined the other American Presidents in a Declaration in which they agreed "to consider together possible systems of general non-reciprocal preferential treatment for exports of manufactures and semimanufactures of the developing countries, with a view to improving the condition of the Latin American export trade."

Largely as a result of the impetus given its work by President Johnson's statement on preferences at Punta del Este, the OECD Special Group, in October 1967, completed a report reflecting agreement on a set of principles or guidelines on which a generalized system of tariff preferences might be based. The report contained a consensus statement which served as the basis for a common OECD position at UNCTAD II. The Conference was unable to agree on any of the key elements of a preference system but did agree to press ahead with the necessary work with a view to settling the details in the course of 1969. In discussions in July 1968, the OECD Group failed to reach agreement on any important points of substance and, consequently, had little to report to the UNCTAD Special Group on Preferences at its November-December 1968 meeting. The OECD Group will meet again in April 1969, prior to a second meeting of the UNCTAD Group sometime in mid-1969.

In addition to Latin American interest in a regional trading arrangement with the United States, there have been a number of attempts to obtain more limited special preferences.

Such a request, for example, was included in the detailed agenda for the treaty negotiations which Panama submitted in 1965. Although the United States gave no reason for belief that the proposal would prosper, Panamanian interest in the idea continued, which is one reason why Panama has shown only lukewarm interest in the Central American Common Market.

The Dominican Republic proposed that the United States give "Puerto Rico" status to Central America, Haiti and the Dominican Republic; and Mexico proposed that the United States consider entering into an automobile agreement with Mexico, similar to the US-Canadian Agreement,[21] and based on a reciprocal duty-free exchange. In neither case was any encouragement offered concerning possible US support.

21/ See Chapter III, Section 5, "Canada", above.

6. Multilateral Efforts

a. The Organization of American States (OAS)

(1) OAS Charter Reform

In 1964 and 1965, there was evident a growing desire by a number of the Latin American countries to reform the OAS Charter (signed in 1948), in order to give greater emphasis to member-state commitments in the economic and social fields, and to make the OAS a more effective instrument for promoting Latin American development. In general, the Charter amendments represented primarily a Latin American initiative, to which the United States lent its support.

The guidelines for the reform of the Charter were laid down by the Second Special Inter-American Conference held at Rio de Janeiro in November 1965.[1/] A special OAS committee met at Panama in March 1966 and drafted the

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1/ Final Act of the Second Special Inter-American Conference, Rio de Janeiro, November 17-30, 1965 (documents of Pan American Union, Washington, D.C.), Resolutions I and II.

amendments.[2/] In June 1966 the Inter-American Economic and Social Council revised the Economic and Social Standards contained in the Panama draft (Chapters VII and VIII of the revised Charter), and the OAS Council suggested several changes in other parts of the Panama draft.[3/] Finally, in February 1967 the Third Special Inter-American Conference, held in Buenos Aires, adopted the Charter amendments in the form of a Protocol of Amendment to the Charter, which was

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2/ Final Act of the OAS Special Committee which prepared the draft Charter amendments, Panama City, April 1, 1966 (Doc. 90).

3/ Observations of the OAS Council on the draft Charter amendments, including as Appendix II the re-draft by IA-ECOSOC of the Economic and Social Standards (OAS document C-d-1418, Rev. 2, June 29, 1966).

signed by all 20 member states present.[4/] The amendments, as signed, generally followed the Panama draft, as revised by IA-ECOSOC with respect to the Economic and Social Standards.

The most notable role which the United States played regarding the Charter amendments was with respect to the Economic and Social Standards, and this role was essentially a restraining one. At the Panama meeting, an unfortunate split developed between the Latin American countries on one hand, and the United States on the other, regarding the text of this important section of the revised Charter, resulting in the United States' entering a general reservation to the

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4/ Protocol of Amendment to the OAS Charter, signed at the Third Special Inter-American Conference, Buenos Aires, February 27, 1967. (OAS Treaty Series document, OEA/Ser. A/2, Add. 2 - comparative texts).

draft Standards as approved by the OAS Committee in Panama.[5/] The Latin American delegations desired to include in these Standards the detailed guidelines set forth in the Economic and Social Act of Rio de Janeiro (adopted by the Second Special Inter-American Conference), as embodying the concepts of aid and trade designed to promote development of less developed countries, which had been incorporated in recent international doctrine (UNCTAD). The United States viewed the Economic and Social Act of Rio as a statement of general intent and policy, but believed that some of its specific provisions, particularly in the field of mutual assistance and trade, were not appropriate for incorporation as obligations in a treaty, which would have the force of law. Thus, one of the major difficulties in the Panama draft of the Standards, in the US view, was wording which could have had the effect of committing future US Congresses to legislate aid appropriations.

5/ Department of State, Bureau of Inter-American Affairs, Memorandum (Mr. Sayre) to the Secretary, on instructions to US Delegation to OAS Special Committee in Panama, February 23, 1966, ~~(CONFIDENTIAL)~~.

In order to iron out these differences and to produce a text of the Economic and Social Standards acceptable to the US, IA-ECOSOC met in June 1966, as previously mentioned. The US delegation succeeded in having the objectionable passages of the Panama draft revised in a manner which would be satisfactory to the US Senate, close consultation with the Senate Foreign Relations Committee on this question having been maintained by the Department of State. The revised text reflected US support for Latin American development aspirations, while incorporating the necessary constitutional and other safeguards which the United States required.

The US delegation at Panama, together with several others, pressed for the assignment to the Permanent Council of adequate authority and flexibility in the pacific settlement of disputes, but enjoyed only limited success because of the rather negative attitude of important Latin American countries.

Two other specific US proposals at the Panama meeting which did not prosper were ones (1) to empower the Secretary General to bring to the attention of the Council or of the Assembly matters which he believed might endanger peace and security in the hemisphere, and (2) to deny voting privileges in the Assembly to member countries over two years in arrears in their quota payments.

The United States favored giving a more active role in the Charter to the military advisory organ, by incorporating the long-active Inter-American Defense Board into the Charter, or at least by giving a more practical role to the Advisory Defense Committee, which was already in the Charter but had never been convened. No such changes were made in the Charter, however, owing to the opposition of a considerable number of Latin American countries.

On the other hand, the view prevailed, shared by the US, for retaining the present Charter provision that the location of the General Secretariat is Washington, where the Council shall also continue to have its seat.[6/]

6/ US Position Paper on OAS Charter amendments for Third Special Inter-American Conference (LAT/P-4, February 7, 1967).

(2) Admission of New States

Regarding the independent states of the hemisphere which had not up to this time been OAS members - Trinidad and Tobago and Barbados became OAS states in 1967, Jamaica was considering membership, Canada continued to abstain from membership, and Guyana was debarred from membership by the terms of the Act of Washington until Venezuela's territorial dispute with Guyana has been resolved.

The United States has consistently favored membership for those independent states of the hemisphere desiring to join the OAS. We have avoided, however, any appearance of sponsoring the new English-speaking countries for membership as we do not wish to create the impression among the Latin American members that we are attempting to build up an English-speaking bloc to counter-balance them.[7]

7/ Department of State, Background Paper for Third Special Inter-American Conference, "Admission of New Members to OAS", February 4, 1967.

In the past we have made material available to Trinidad and Tobago and Barbados, at their request, regarding OAS membership, and in July 1968 the Jamaican Government initiated consultations with the United States regarding the ramifications of OAS membership for itself.

The United States supported the membership requests of Trinidad and Tobago and Barbados, which were approved in 1967 by the OAS Council.

The OAS has debarred from membership non-member American states which have border disputes with member states, so long as those disputes are not settled. This was done in the Act of Washington approved by the First Special Inter-American Conference in December 1964, the terms of which are such as to apply to Guyana and to British Honduras (after it becomes independent and should Guatemala maintain its claims against its territory). The same exclusion provision has been included in the amendments to the OAS Charter.

The United States has not favored such a general provision on exclusion, but has gone along with it because of the insistence on the provision by Guatemala and Venezuela who have received the support of the other Latin American countries.[8/]

(3) Election of OAS Secretary General

After a protracted three month period of balloting and negotiating, Galo Plaza, former President of Ecuador, was elected by the OAS Council on February 13, 1968, as Secretary General of the Organization of American States to succeed Jose Mora of Uruguay.[9/] Also, Rafael Urquia of El Salvador was elected Assistant Secretary General to succeed William Sanders of the United States.

8/ Department of State, Scope Paper for First Special Inter-American Conference, December 10, 1964.

9/ For a detailed analysis of the election, see USOAS Airgram 44, March 29, 1968, ~~(CONFIDENTIAL).~~

~~CONFIDENTIAL~~

Eduardo Ritter, the Panamanian Representative on the Council, led on the first four ballots held during November 1967, even though he was the least qualified of the candidates. He had the support of Central America. No candidate seemed to have sufficient support to win the majority vote required, and the member states consulted and negotiated among themselves during December and January in order to resolve the impasse. Ritter succeeded in discrediting himself as a candidate. The United States, which had earlier proposed the re-election of William Sanders as Assistant Secretary General, let it be known that it would support a Central American candidate for Assistant Secretary General on the understanding that such a candidate would have the general support of other member states, that the Central American countries would support Plaza as Secretary General, and that a US citizen would be appointed Assistant Secretary for Administration in the OAS Secretariat. This combination of factors led to a resolution of the voting

~~CONFIDENTIAL~~

impasse, and to the election of Plaza on the sixth ballot and of Urquia, who became Central America's candidate, as Assistant Secretary General.

The United States supported the Plaza candidacy throughout, considering him the candidate who could benefit the OAS the most with his qualities of leadership and dynamism. The US Representative on the OAS Council was instrumental in persuading Galo Plaza to be a candidate after the former's initial contacts among Latin American diplomats had shown support of Plaza. Once launched, the Plaza candidacy was initially identified in the Latin American mind more with the US Government than with the Ecuadorean Government, Plaza's official sponsor.

b. The Inter-American Development Bank (IDB)

(1) Background: US Support

The continued achievements and growth of the Inter-American Development Bank during the Johnson Administration would not have been possible without US support. Although the United States is only one of 21 members, it is the IDB's largest shareholder.

The United States provided 43 percent of the IDB's "ordinary capital" (available for lending on normal banking terms); $618 million of the US share of $968 million was provided during the Johnson Administration. Of this amount $206 million representing the 1968 US contribution was appropriated by the Congress in the fall of 1968. Most of these funds were "callable capital" (requiring no cash outlay except in the unlikely contingency that the IDB experienced some financial difficulty). The IDB now derives the bulk of its ordinary lending resources by borrowing against the security of the US callable subscription.

The IDB's Fund for Special Operations (FSO, available on softer terms) received 79 percent ($1,200 million) of its financial support from the United States. The 1968 US contribution of $300 million was appropriated by Congress in the fall of 1968, and appropriation of another $300 million contribution will be requested in 1969. These contributions have already been authorized. In addition, the Social Progress Trust Fund, administered by the IDB for the United States, received $525 million, of which $131 million was provided during the Johnson Administration (SPTF).

When the Inter-American Economic and Social Council, at its 1963 Annual Meeting, established CIAP (the Inter-American Committee on the Alliance for Progress), the IDB was declared to be "the technical arm of the Committee in matters concerning financing of Latin American development," thus acknowledging the central role of the IDB in the Alliance for Progress.

(2) Promotion of Integration

The IDB, with strong State Department support, has played an increasingly important role in promoting and financing Latin American integration. In August 1965, CIAP requested its chairman to investigate the establishment of a Preinvestment Fund for Latin American Integration, which would identify and finance studies leading to multinational projects. President Johnson's announcement that the United States would be willing to contribute to such a fund was instrumental in its establishment by the IDB in 1966. During 1967, the Fund examined such possibilities as developing an integrated air cargo service for six countries, space and ground telecommunications, River Plate development, regional industrial projects in Central America; and electricity from the Acaray River Valley for three countries.

The Declaration of the Presidents, issued at the Punta del Este Summit Meeting in April 1967, stated *inter alia* that the IDB "should have additional resources in order to participate actively in the attainment of . . ." multinational infrastructure projects facilitating Latin American economic integration. Prior to the Summit, the Bank had begun negotiations on a $1.0 billion increase in Ordinary Capital and a $900 million increase in FSO resources. The United States recommended that the FSO increase be raised to $1.2 billion with the US contribution $900 million rather than $750 million, contingent on a doubling of the Latin American part of the increase from $150 million to $300 million; and this received approval.[10/] In 1968 a message delivered at the IDB Board of Governors Ninth Annual Meeting by Secretary of the Treasury Fowler, on behalf of the President, sparked a resolution providing that the IDB, in conjunction with CIAP, create

10/ "Letter from Secretary of the Treasury, Chairman, National Advisory Council on International Monetary and Financial Policies Transmitting a Special Report of the National Advisory Council on International Monetary and Financial Policies on US Participation in a Proposed Increase in the Resources of the Fund for Special Operations of the Inter-American Development Bank, and on a Proposed Modification of Provisions for the Election of the Bank's Executive Directors", referred to the Committee on Banking and Currency, US House of Representatives, May 3, 1967. US Government Printing Office, House Document No. 117 (90th Congress, 1st Session), Washington, D.C., 1967.

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a task force to develop a five-year plan and action program for physical integration programs in Latin America. 11/

(3) Other US Initiatives

Our other initiatives have taken the form of policy recommendations stimulated by the Treasury Department. To help the United States meet its balance of payments difficulties, the IDB agreed to limit FSO dollar financing of local costs to 35 percent of FSO dollars committed annually. (The State Department had sought a 25 percent figure, but agreed to the higher figure in negotiations with Treasury; agriculture and education were exempted at the Department's insistence.) As part of the increasing Latin American self-help effort, the IDB agreed that contributions to the Fund for Special Operations from Argentina, Brazil, Mexico and Venezuela "will be available in part for financing local costs in addition to financing exports under Bank projects from these countries." Increasing Latin American self-help

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11/ Address by Henry Fowler at the Inaugural Session, Ninth Annual Meeting of the Board of Governors of the IDB, 1968, Bogota, Colombia (Bank document AF-121, April 22, 1968).

also prompted the US decision, when SPTF funds were nearly all committed in 1965, to make funds available to the Fund for Special Operations (to which the United States is the major, but not the only, contributor) rather than to replenish the unilaterally funded SPTF.

The Department of State supported an initiative to link procurement in non-member countries, financed with IDB loans, to appropriate contributions from them to the IDB. By December 1967 these countries had agreed to channel more than $211 million to the IDB.

(4) The US Policy Process

The day-to-day operations of the IDB are supervised by a Board of Executive Directors, one of whom is appointed by the United States. A system of weighted voting, in accordance with the size of subscriptions, prevails. Decisions regarding the Ordinary Capital are made by majority vote, while approval of loans from the Fund for Special Operations requires a two-thirds vote.

The Secretary of Treasury provides the US Executive Director with his instructions; before doing so, he consults with the inter-agency National Advisory Council of which he is Chairman. The Department in formulating its position before the National Advisory Council, requests comments from AID missions as well as from concerned offices within the Department. Representatives of the AID and IDB staffs meet in the spring of the year to exchange country strategies and lists of loans which each agency expects to consider during the current calendar year. The IDB's strategy statements are made available to the Department but not to others because of the need for close coordination with the US assistance program and because of the US voting power in the IDB. Similarly, all differences between the US and other IDB members have been negotiated beforehand so that the US has not had to cast a negative vote in any Executive Directors' meeting.

Congress, as well as the Executive Branch, has had its impact on IDB operations. Its positive effect was shown by its authorization of US contributions, perhaps reflecting a growing feeling that more US assistance should be channeled through multilateral means. Amendments to the IDB Bill in 1967 demonstrated an occasional negative effect; for example Senator Symington, upset by Export-Import Bank loans for military hardware, introduced an amendment forbidding the US Executive Directors to vote in favor of any IDB project which "directly or indirectly" contributed to the financing of heavy military equipment. The Symington Amendment overlooked the fact that IDB financing had never been used for this purpose--and the amendment was very difficult to interpret or apply.

c. The CIAP

(1) Background

The Inter-American Committee on the Alliance for Progress (CIAP) grew out of the need to give the Alliance multilateral guidance and to coordinate the activities of the many assistance organizations involved. The First Annual Meeting of the Inter-American Economic and Social Council

(IA-ECOSOC) in October 1962 charged two outstanding Latin Americans with studying the structure and activities of those organizations in order to inject greater efficiency and dynamic qualities into the Alliance. The former Presidents of Brazil and Colombia, Juscelino Kubitchek and Alberto Lleras, following authorization from the Council of the OAS, made reports to member states on June 15, 1963, on the need to create a permanent multilateral body representing the Alliance. At the Second Annual Meeting of IA-ECOSOC at the Ministerial Level on November 15, 1963, just a week before President Johnson assumed office, CIAP was created.

From the point of view of US policy the creation of the Alliance for Progress meant the subjection of certain areas of policy formulation to the judgment of multilateral organizations. The US Congress by law requires all Alliance for Progress loans by AID to be in accord with the recommendations of CIAP in its country reviews. CIAP also evaluates the domestic effort of the member countries and estimates total requirements for external assistance each year. As a consequence of these arrangements, the United States would not be in the position of following up unilaterally on the accomplishment of the numerous objectives set forth in the Charter of Punta del Este and modified by subsequent annual meetings of the IA-ECOSOC. The broader forum would also more readily permit the coordination of the efforts of the several financial agencies and would provide more easily for the participation of non-hemispheric countries. The United States, of course, retained a strong bilateral role, which was backed up by AID, Treasury, EXIM Bank, and other agencies.

The first Chairman, Carlos Sanz de Santamaria, and seven members of CIAP, including a US representative, were elected at a Special IA-ECOSOC Meeting on January 30, 1964. A letter of welcome from President Johnson noted that the creation of CIAP could be a milestone in Inter-American efforts, could give the Alliance the multilateral form envisaged by the Charter of Punta del Este, and could lead to the partnership desired by the founders of the Alliance.

The US Government is represented by a member of CIAP who is able to influence the policies to be followed. In each country review the US Government is, in addition, represented by a senior official of AID, who gives particular attention to the assistance policies pursued by that agency toward the several countries. The staff of the US Representative has been able to work informally with the CIAP Chairman and Executive Secretary and their staff to effect steady improvement in CIAP's operation.

(2) Country Reviews

The inaugural session of CIAP, which was addressed by President Johnson, was held in Washington in March 1964, and the first meeting was held in Mexico City in July 1964. At this first meeting CIAP decided on a country review process that would meet the specific requirements placed on it by the IA-ECOSOC: a) to make an estimate of the financial needs for Latin American development and growth at the rate of 2½ percent per capita, and of the total funds that may be available from the various domestic and external sources to satisfy those needs; b) to make a continuing review of national and regional plans and actions to execute them; and c) to make specific recommendations to the members of the Alliance and to the regional organizations in the hemisphere concerning these plans. To this end CIAP has conducted - with the participation of the governments concerned, as well as the IDB, IBRD, IMF, AID and the Panel of Nine - four series of reviews of the plans and programs of every Latin American country. Since the review process is voluntary, it is a matter for the governments themselves to decide how they will react to the CIAP recommendations. In addition, the degree to which the lending agencies are guided by the Committee's funding varies from case to case. The review concept is based on the principle that the Latin Americans through the CIAP mechanism examine themselves and pinpoint critical issues. Hence, CIAP, in theory at least, takes some of the pressure off the lending agencies.

The annual country review process is now firmly established, and is believed to represent a remarkable achievement in cooperative international analysis given the high sensitivity of Latin American countries to anything resembling outside interference. Only the direst kind of emergency, such as that experienced by the Dominican Republic in 1965, has prevented a country from appearing for its review. This has been all the more noteworthy in view of the fact that CIAP, unlike the Bank, has not had development funds to provide the countries, except for the small Special Development Assistance Fund. There are surprisingly few instances in which CIAP recommendations have been considered "intervention"--none of these on the part of governments which have participated in the CIAP reviews.

The country reviews have often yielded sound recommendations to member countries on their development policies. CIAP has given a new dimension to a region's development effort through institutionalizing a process of continuous dialogue wherein the performance of both donor and recipient are given public exposure.

(3) The Special Development Assistance Fund and Other Activities

Each year since its creation CIAP at the conclusion of the annual country reviews has prepared an evaluation of Latin American progress, covering all major fields of endeavor of the Alliance. It has convoked a great variety of meetings on trade, basic commodities, fertilizers, economic integration, telecommunications, etc. It has participated in the establishment of the Inter-American Export Promotion Center launched in 1968. With the support of the Secretariat of the OAS and outside consultants, CIAP is studying many of the basic policy problems of the Alliance, such as incentives to private investment, standards for judging the development performance of member governments, the impact of world monetary conditions on Latin America, marketing and the integration of national markets. Through the Special Development Assistance Fund, which CIAP manages, extensive programs of technical assistance and training have been carried out. Together with the IDB, CIAP has been working on the acceleration of regional physical infrastructure projects.

(4) US and other Lenders' Support

The United States has sought to place increasing emphasis on the multilateral features of the Alliance through CIAP. In 1966 Congress approved the Fulbright Amendment (Section 251 (b) of the Foreign Assistance Act of 1966) which required that all Alliance for Progress loans be consistent with the conclusions and recommendations of CIAP in its reviews of development programs. In January 1968, the US Representative on CIAP announced that we were prepared to coordinate the granting of program loans in such a manner that recommendations of CIAP could be taken into account. In May 1968, AID further proposed, and CIAP accepted, a plan whereby CIAP would be consulted concerning the development loans to be made by AID prior to the initiation of formal negotiations with the countries concerned.

The other agencies--IDB, IBRD and the IMF have not been willing to link their decision-making process as closely to CIAP recommendations on actions as has AID. However, CIAP and its Secretariat have managed to foster the cooperation of the major financial agencies--the IDB, IBRD, IMF and AID. The country reviews have provided a forum in which the CIAP Subcommittee and the agencies have formulated commonly agreed recommendations to the countries.

(5) Conclusion

CIAP has proved to be a valuable multilateral organization for coordinating the efforts of countries and agencies engaged in the Alliance for Progress. Its most significant achievement has been the annual review of the development activities of each country, the fifth series of which was in progress during December 1968. Through its Secretariat it has also contributed substantially to bringing about tax reforms. Certain critical areas, such as agrarian reforms and population, have not been pursued as vigorously as the United States might wish. The strength of multilateral organizations depends very much on the willingness of each member to subordinate its individual national interest to the common effort.

While CIAP has accomplished much during the short term of its existence, the United States has constantly watched for opportunities to strengthen the operation of CIAP and its Secretariat. There are a number of ways in which the work of CIAP would be improved. CIAP itself has recognized the need for strengthening its own operation and at its 15th Meeting in May 1968 proposed a modification in its structure. The United States favored the recommended changes and made diplomatic approaches to the governments of member states in support of them. These changes will come before the Sixth Annual IA-ECOSOC Meeting now scheduled for May 1969. 12/

12/ See following page for general references.

GENERAL REFERENCES

"Regulations of the CIAP approved on October 31, 1964"
OEA/SER H/XIII - CIAP/152 11/2/64

"Draft Procedures for the 1965 Country Studies"
OEA/SER H/XIII - CIAP/191 4/27/65 and annual country reviews thereafter

"Examination of the Country Review System and Aspects Concerning the Organization and operation of CIAP"
OEA/SER/XIV - CIAP/213 1/15/68

"Reorganization of CIAP" OEA/SER H/XIV - CIAP/259 5/3/68

Official US Government Briefing Books for all CIAP and IA-ECOSOC meetings as relate to CIAP (e.g., structure, operation, results of country reviews, liaison and coordination between CIAP and the Inter-American Cultural Council, Special Development Assistance Fund, CIAP reports to IA-ECOSOC, etc.).

Annual OAS Documents - Principal trends of the Latin American Economy and CIAP Reports to IA-ECOSOC.

7. The 1967 Inter-American Summit Meeting

a. The Proposal of a Summit

At the instigation of Argentine President Arturo U. Illia, the Argentine delegation to the Fourth Meeting of the Inter-American Economic and Social Council (IA-ECOSOC) introduced a draft resolution on March 31, 1966, calling on the OAS to convoke a "meeting of the chiefs of state of the countries of the Inter-American system" as soon as possible. The following day, President Illia, in support of the resolution, said that ". . . a categoric political re-affirmation is needed to serve as sure and precise guidance in carrying out the work /of the Alliance for Progress/" and called for ". . . the strengthening of political support at the highest level of joint action." As a compromise measure, IA-ECOSOC approved a special declaration entrusting the Secretary General of the OAS with the task of consulting member governments on the advisability of holding such a meeting. The US delegation supported the declaration but made clear in informal conversations that it had no knowledge of the views of President Johnson.

b. Support by the President

The first official US reaction came on April 15 when President Johnson, speaking in Mexico City, stated that he would ". . .in the months ahead join with Latin American leaders in exploring the proposal of the President of Argentina for a new meeting at the very highest level to examine our common problems and to give the Alliance for Progress increased momentum."[1/]

On May 2, the Department of State appointed a Special Assistant to the Assistant Secretary for Inter-American Affairs with responsibility for matters connected with the proposed Meeting of Presidents. Secretary Rusk on May 12 recommended to the President that we seek to have the meeting held late in 1966 in South America at a site favored by an Inter-American consensus and that we propose that the main agenda items be intensified mutual assistance and self-help under the Alliance with special emphasis on education and agriculture, Latin American economic integration and US trade

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1/ Remarks of the President at the Dedication Ceremony for the Lincoln Statue, Mexico City, White House Press Release, April 15, 1966.

relations with Latin America.[2/] These proposed US positions were approved by the President.

c. Early US Preparations

The OAS Secretary General reported in late May that his consultations with member states had disclosed generally positive sentiment for a summit meeting. On June 1, the Department instructed US diplomatic posts in Latin America to begin consultations with their host governments on site, date and agenda for the Summit.[3/] From the start, the United States emphasized the importance of careful preparations.

At press conferences on July 21 and August 9, 1966, in response to questions, the President stated once again his willingness to attend an inter-American summit meeting; and on August 17, in a speech commemorating the Fifth Anniversary of the Alliance for Progress, he reiterated our support of the proposed meeting.

2/ Inter-American Summit Meeting, Memorandum to the President from Secretary Rusk, May 12, 1966.

3/ State CA-1723 to ARA Diplomatic Posts, June 1, 1966.

In preparing for the Summit, the Department sought ideas and advice from a broad range of people within and outside of the Government. A particular effort was made to solicit ideas from business, labor and academic circles.

There was a consensus the Alliance was moving forward and the enormous development problems were generally better understood but priorities should be established to meet the imperative needs.

d. International Preparations

After much informal discussion among member states, the Council of the OAS convened in mid-September to consider the matter. On September 19 it called for a Meeting of Consultation of Foreign Ministers within 90 days to make decisions on the proposed Summit, established a Preparatory Committee to prepare studies and pertinent preliminary proposals, and invited officials of inter-governmental organizations to give advice and views on the studies and proposals.

In late September, the Inter-American Foreign Ministers met at New York in conjunction with the opening of the UN General Assembly session. In two days of closed meetings, they agreed that the Summit meeting should adopt decisions to give new impulse to the Alliance for Progress and to accelerate Latin American economic integration, the Preparatory Committee should immediately begin work and the site and date should be decided at a future Meeting of Consultation of Foreign Ministers. They were unwilling to come to grips with the site and date issues until substantive preparations had advanced further.

e. Development of the Specifics of the US Position

As staff papers were prepared on the Summit within the US Government, a general consensus developed on most items recommended for the agenda, but there were differences on the extent to which there should be additional calls on US resources. On October 14, the Secretary of State recommended to the President that Summit preparations should center on: 1) Latin American economic integration, 2) higher targets for the Alliance, with special emphasis on education and agriculture, and 3) trade and investment.[4/] On October 19,

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4/ Inter-American Chiefs-of-State Meeting, Memorandum to the President from Secretary Rusk, October 14, 1966.

the President approved the recommendations with understanding that no decisions or commitments were to be made with respect to additional US assistance without prior referral to him together with a firm indication of what the Latin Americans were prepared to do.[5/]

On October 28, Assistant Secretary of State Gordon presented to the OAS Preparatory Committee the US view that the Committee should select specific fields to which priority might be given in the preparatory work. He also proposed that the Committee reach an agreement on the nature and type of conclusions which would emerge from the meeting of the Presidents.

In the early months of Summit preparations four sites were formally offered to the OAS: Lima, Peru; Vina del Mar, Chile; Punta del Este, Uruguay; and San Jose, Costa Rica. The United States believed the site should be in Latin America and initially favored Lima. Ecuador, however, formally announced that it would not attend a meeting there. Bolivia,

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5/ Memorandum for the Secretary of State from the White House (Bromley Smith), October 19, 1966.

and to a lesser extent, Brazil, gave indications that Vina del Mar was unacceptable. San Jose lacked adequate logistical facilities. This left only Punta del Este as a generally acceptable site.

f. Consultation through Trips

Ambassador Linowitz discussed Summit preparations and prospects with Central American leaders on a trip there in November 1966. He and Assistant Secretary Gordon continued the consultation process the following month with visits to the major Latin American capitals. We concluded at this time that: 1) interest in the Summit was growing, with a consensus in favor of April 12-14, 1967, as the date (April 14 is Pan American Day) and Punta del Este as the site; 2) there was a consensus for an agenda consisting of a few significant items fully worked out and agreed to in advance--with no surprises at the Summit; 3) the Latin Americans were especially interested in trade matters and in agreement on the importance of special emphasis on multinational infrastructure projects, education and agriculture; 4) while they agreed on the importance of Latin American economic integration, they disagreed on what should be done about it at the Summit; and 5) five of the six major countries concerned were prepared to agree on some formula for arms limitation.

g. Role of Inter-governmental Leaders

Meanwhile, the Preparatory Committee had invited the leaders of inter-governmental organizations including the OAS, LAFTA, CACM, the Inter-American Development Bank, the Inter-American Committee for the Alliance for Progress, the UN Conference on Trade and Development, and the UN Economic Commission for Latin America to give their advice and views. These leaders held a series of discussions and meetings, mainly in Washington, between November 26 and December 28. Their report, "Ideas on Social and Economic Matters for the Meeting of Chiefs of State"[6/], placed particular stress on Latin American economic integration. In addition, separate reports, "Science and technology as Factors in the Development

6/ OEA/Ser. G/VII, CE/CP-URC-24, January 5, 1967.

of Latin America"[7/] and "Ideas on the Subject of Education for the Meeting of Chiefs of State",[8/] were prepared for those areas by the OAS Secretariat and Consultants from the United States and Latin America.

h. Additional US Staff Preparations

Within the US Government, a Summit Advisory Group, as it came to be known, was designated on November 10, 1966. It was headed by Ambassador Linowitz under the over-all guidance of Assistant Secretary Gordon. The group was composed of ranking Latin American experts within the Department of State, with representatives from Treasury, Commerce and the White House Staff. It met twice a week until late February 1967 to formulate strategy and tactics for negotiations on the agenda and to assign specific responsibilities for staff work.

7/ OEA/Ser. G/VII, CE/CP-URC-25, January 5, 1967.

8/ OEA/Ser. F/II.11, Doc. 13 Appendices, Addendum, February 7, 1967.

When the work of preparing an agenda began to bog down in the Preparatory Committee, the United States presented a confidential draft annotated agenda[9/] in late January 1967 to serve as a basis for discussion and, after refinement,[10/] for consideration by the Eleventh Meeting of Foreign Ministers.

i. Final Summit Preparations

On February 26, 1967, the Foreign Ministers, meeting at Buenos Aires to adopt a Protocol of Amendment to the OAS Charter, finally recommended that the Summit be held at Punta del Este April 12-14. They approved a six-point agenda which reflected in large measure the proposals set forth in the US annotated agenda, and work was begun on an action program. The Ministers also recommended that a Special Committee of Presidential Representatives meet at Montevideo on March 13 to complete the drafting of documents for the Summit.

9/ OEA/SER. G/VII, CE/CP-URC-24 (Sp) Corr., February 2, 1967.

10/ OEA/Ser. F.II.11 Doc. 24, February 18, 1967.

In a meeting on March 1, the President made final decisions regarding increased US financial support to carry out the anticipated Summit programs as well as strategy for obtaining the support of Congress, including the introduction of a joint resolution in Congress in advance of the Summit. 11/ The resolution was proposed on March 13 and passed with slight amendments in the House but the Senate balked at the making of a formal commitment in advance of the Summit.

The meeting of the Special Committee of Presidential Representatives was disappointing. The negotiations were marked by prolonged debate, the final reports included 24 statements and reservations by Latin American delegations, and work was not completed on a draft declaration summarizing in political terms the document to be issued by the Presidents at the Summit.

11/ Memorandum of March 7, 1967, from the White House (Walt W. Rostow) for Secretary Rusk, Under Secretary of the Treasury Barr, AID Administrator Gaud and Budget Director Schultze, ~~(CONFIDENTIAL).~~

The Foreign Ministers met in Montevideo on April 8 to complete work on the declaration and to make final arrangements for the Summit. It had become obvious that a specific agreement on Latin American arms limitations, which had been bought by the United States, would not be possible, and therefore we did not press the matter beyond a general expression of the Presidents' intentions to limit military expenditures in proportion to the actual demands of national security and international commitments. Negotiations by the Ministers continued until April 13, the day after the Presidents arrived. The United States was largely successful in its positions. The negotiations ended with agreement by all except the Ecuadorians (and the Bolivians who refused to attend after they could not get an agenda item on access to the sea for land-locked countries) on the final declaration.

j. The Summit Sessions

The Conference went largely according to plan. The only negative note was sounded by Ecuadorian President Arosemana who attacked the "political strings" attached to

Alliance for Progress loans, demanded tariff privileges for Latin American products, and criticized heavy US expenditures in Vietnam in view of Latin American needs. President Diaz Ordaz of Mexico firmly rejected Arosemena's implied reproach and stated that while no participant could be completely satisfied with the document, the success of the meeting required compromise and agreement on a common denominator or purposes. Presidents Lleras and Leoni also urged Arosemena to reconsider. President Frei stated that Chile was convinced of the positive and important results of the conference and held great optimism for the future.

At the signing ceremony, Arosemena formally announced his decision not to sign the Declaration. He asked that his decision not be taken as a sign of a break in the unity of the Americas, but rather as a confirmation of democracy in the hemisphere. At the same time, Arosemena expressed his deep admiration for the personal qualities of President Johnson. The document was signed by the remaining 16 Presidents, the President-elect of El Salvador, the Prime Minister of Trinidad and Tobago, and the Haitian Ambassador to Washington, who represented his country.

With the exception of the Central American presidents, with whom he met in a group, President Johnson held bilateral conversations with each of his Presidential colleagues. The conversations were generally positive and for the most part focused on particular bilateral problems.

k. The Decisions Made

The Summit Conference and its "Declaration of the Presidents of America" re-affirmed the principles of the Alliance for Progress and resulted in key decisions on: 1) the creation of a Latin American common market, 2) physical integration by completion of multinational transportation, communication, power and river development projects, 3) expansion of Latin American trade, 4) improved agricultural programs, 5) improved educational programs with special emphasis on science and technology, and 6) the need to limit military expenditures generally in recognition of the demands of economic development and social progress.