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# Economic Developments

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## ECONOMIC DEVELOPMENTS

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### AGRICULTURE AND LIVESTOCK

To support a \$1.7 million sale of U.S. equipment and services required for modernization of a sugar mill in the Dominican Republic, the Export-Import Bank has authorized a direct loan of \$765,000 to finance 45% of the U.S. costs and a financial guarantee of a loan of \$765,000 to finance another 45% of the U.S. costs. The borrower, Gulf & Western Industries, Inc., will make a cash payment of 10% of the total U.S. cost, or \$170,000. The loan will be used to modernize the Central Romana Sugar Mill, and will be repaid in six semi-annual installments beginning in November of 1973.

The Brazilian Ministry of Agriculture has drawn a plan, accepted by the World Bank, under which the government and the Bank will each invest \$50 million in the food processing industry of Brazil over the next two years. The program is designed to help exports and to end waste of products which are currently lost for lack of adequate transportation, storage or processing facilities.

The Banco do Brazil has granted a \$1 million loan to the *Banco Central de Fomento* of Paraguay to be used to develop cattle production and exports. The loan was the first installment of a \$10 million line of credit which had previously been established.

Sugar exports from Brazil are expected to total \$400 million this year. A deficit of more than \$400 million overall is still expected in spite of improvements in the deficit trading balance.

Ethiopia, Uganda and Madagascar, and possibly Ecuador, Honduras and Camaroon, are studying a Brazilian proposal to set up a company which would seek to regulate the world coffee trade. The proposal is that

the corporation would assume the form of a joint stock company with shares held by the member states in proportion to their coffee production. The proposal spells out details of a "commercial body" with the following purposes:

- (a) To insure close cooperation among producers who are parties to the document in achieving their aims of maximizing their coffee earnings;
- (b) To foster, strengthen and facilitate coordination of their trade policies;
- (c) To participate in the marketing of coffee as a profitable venture.

#### ANDEAN PACT

Closer trade relations between members in the Andean group and Mexico are to be discussed by officials in the near future. In Mexico a spokesman for the Ministry of Trade and Industries said his country would be very interested in joining the group.

#### CHEMICALS AND PLASTICS

##### ARGENTINA

*Industrias Petroquímicas Argentinas Koppers* (IPAKO) is in the process of becoming the first major foreign-controlled petrochemical company in Argentina to turn over a majority position to local interests. The company (founded by Koppers International) has completed a three million share stock issue aimed at diluting Koppers' ownership of 51.4% to 46.4%. Local interests, including two government agencies, now have a controlling position.

*Petroquímica Sudamericana* is planning a \$10 million polypropylene plant in partnership with the state oil agency *Yacimientos Petrolíferos Fiscales* at Mendoza and a \$40-45 million caprolactam plant with *Petroquímica General Mosconi* at La Plata.

##### BRAZIL

Bayer will invest \$15 million in Brazil to increase sulfuric acid production, manufacture *Binotal*, a new antibiotic, and to build a dyes laboratory and new offices. Bayer's Brazilian subsidiary plants to boost sales about 40% this year to \$97 million.

*Propenasa-Produtos Petroquímicos Nacionais* will open a plant in October to produce 20,000 tons per year of propylene glycol for sale on the Brazilian market and to LAFTA countries. The plant, which cost \$7.5 million to build, will save imports worth \$8 million. The operating company is a joint venture of *Pirâmides Brasília* and Dow Chemical.

## PUERTO RICO

DuPont broke ground at Manatí, Puerto Rico, for a \$50 million dye plant, which is expected to begin operations in late 1974. More than 200 dyes will be made for the textile and paper industries. The bulk of the plant's output will be shipped to the U.S. with only a portion slated for overseas customers.

The drug and pharmaceutical industry is one of the fastest growing segments of the Puerto Rican economy. Since 1961, shipments of drugs and pharmaceuticals from Puerto Rico to the mainland have increased from \$8.2 million to \$150 million in 1971. There are currently 61 plants employing 3,000 workers with another 13 plants now being established.

Puerto Rico's petrochemical prospects have never been brighter. Major chemical and refining companies are staking substantial sums on top of the \$1.2 billion already invested in the island's refineries and petrochemical plants. The plants built are mainly producing primary petrochemicals and fuels and these industries have not generated the thousands of new jobs that had been expected. However, management believes that U.S. and foreign companies will soon be building the labor-intensive satellite plants to carry out the final phases of converting those chemicals into apparel and other consumer goods.

## VENEZUELA

*Plásticos Petroquímica (Petroplas)* has received a loan from the Export-Import Bank to finance part of the costs of building a PVC plant in Venezuela. This amount represents 45% of the cost of the project. *Petroplas* is owned by *Instituto Venezolano de Petroquímica*, an autonomous government institute attached to the Ministry of Mines & Hydrocarbons, B. F. Goodrich, and other Venezuelan investors. B. F. Goodrich will furnish the process design engineering for the project, which will become a unit within the planned El Tablazo petrochemical complex near Maracaibo.

## DEVELOPMENT AND INVESTMENT

Representatives of the Caribbean Free Trade Association, the Caribbean Development Bank, the Economic Commission for Latin America, the United Nations Industrial Development Organization, the Eastern Caribbean Common Market and the Commonwealth of Regional Secretariats met on November 9, 1972 at Chaguaramas, Trinidad to institute measures needed to accelerate the industrial development of the lesser developed countries of CARIFTA. The main subject of discussion was the establishment of a multinational investment company for financing the industrial development of the less developed countries. The establishment of this multinational investment company was a recommendation proposed to the 10th meeting of the CARIFTA Council of Ministers held in July of 1972.

Finance Ministers representing the English-speaking Caribbean have resolved to make a greater effort to coordinate the region's fiscal and monetary policies. The decision came at a recent meeting held in Kingston, Jamaica. Sources attending the conference said the ministers agreed to change the present policy of each country dealing with its monetary matters in isolation. Instead, they agreed there will now be a greater effort at collaboration among the various governments with the mechanism to be developed by the Commonwealth Caribbean Secretariat in Georgetown, Guyana.

Following the announcement in 1971 of large-scale regional development programs for the Northeast, Amazonia and Central-Western portions of Brazil, an additional program was introduced in February 1972 to stimulate economic progress in the valley of the river São Francisco, which runs through Minas Gerais and several other northeastern states. In addition, plans are being vigorously pursued to improve transportation and communications and to exploit the vast hydroelectric potential of the region. Work is proceeding rapidly on completion of the main highway network throughout the country by June of 1974, and by the end of 1973 road links will have been completed with all neighboring countries. A program has been announced to complete modernization of ports and railways between 1972 and 1974, and telecommunications are being improved by the installation of microwave lengths between major cities. It was also announced that one million new telephones are to be put into service in the five southern states as part of a ten-year plan to install ten million new lines throughout the country.

The Government of Mexico has created preferential incentives for those investments that contribute to regional development, higher em-

ployment levels, increased exports of manufactured goods and the evolution of autonomous technology. Application of investment-backing measures is governed by the Law to Promote New and Necessary Industries. In less than two years, the Government has created specific support instruments establishing incentives based on location, especially the degree of industrial concentration, market proximity and available infrastructure in each region.

An extensive new plan for industrial and regional development, including the structure, resources and operation of the newly established National Fund for Industrial Development (NAFIN), courses on the management and operation of industrial parks and towns, industrial promotion, methodology of industrialization, and the joint revolving funds for preinvestment studies has been unveiled in Mexico. The plan lists some of the 140 "industrial packages," or agro-industrial complexes encompassing a variety of farm produce-based plants from packing houses to the drying of corn, peanuts, chile, grains, cacao, copra; dehydration of alfalfa; manufacture of ice, tin cans, tiles and bricks, shoe polishes, candy, candles, concrete tubes and blocks, coconut and sesame oil; milk pasteurization plants and many others. The products are to be carried out in all 29 States of Mexico, the Federal District and the territories of Baja California and Quintana Roo. Main purposes of the program are to decentralize the economy, promote regional development and better exploitation of natural resources, create jobs, raise buying power, support small and medium-size businesses, improve the balance of payments situation, foster better income distribution and encourage training of skilled labor.

In view of the importance of foreign investment, the recent address of the Mexican Secretary of Industry is reproduced in full at the end of this report. The Minister entitled his speech "Mexican Thesis on Foreign Investment."

## EXPORTS - IMPORTS

Following reports that a trade treaty between Argentina and China will include the sale of 100,000 tons of maize to Peking, a further agreement is understood to be imminent for the export of 500,000 tons of wheat to China. Argentina is also reported to have a good chance of being included in the Soviet Union's current wheat program.

In an effort to improve its repayment schedule of short term debt, the Brazilian Government has placed a minimum limit of six years on

foreign loans. However, foreign lenders will be allowed to offer credits directly to Brazilian companies for shorter periods, with a minimum of 18 months, provided other companies can be contracted at the same time to make up the balance of the overall six years.

In an effort to provide greater flexibility and meet demand for coverage by Brazilian exporters, the Brazilian Reinsurance Institute has set up new working rules governing export credit insurance. The new directives simplify the procedure for this type of insurance, expand the risk coverage, and speed up the processing of indemnities.

*Banco Mercantile de Investimentos S.A.* of Belo Horizonte, Brazil, has been granted export authorizations totalling \$1.5 million by the Eximbank. *Mercantile*, a private investment bank established in 1971, will use the proceeds—under Eximbank's cooperative financing and relending facilities—to finance costs of purchases of U.S. manufactured goods, including non-aircraft piston engines, machine tools, textiles, crushing, plastic, electric power and electrical machinery, pumps, mechanical handling equipment, industrial switch gear, relays and resistors.

Under agreement between the Central Bank and the Bank of Brazil, the Federal Savings Bank will liberate Cr\$240 million from the Social Integration Program (PIS), to finance exports of manufactured products. With this new fund, exporters will have US\$1.7 billion to finance the placement of their products in world markets.

In the next few months the Colombian textile industry will commence an exporting program to Europe and the United States in accordance with a new development program between the government and a group of importers who completed a visit to Colombia with the object of cementing negotiations and setting the base for new commercial agreements.

To help finance a \$3.4 million sale of U.S. equipment for power plants in Mexico, Eximbank has authorized a direct loan of \$1.53 million to finance 45% of the U.S. costs. The Wells-Fargo Bank of San Francisco, California, will also extend a loan of \$1.53 million to finance another 45% of the U.S. costs. The borrower, *Comisión Federal de Electricidad* of Mexico, will make cash payments of 10% of the total cost or \$340,000. The proceeds of the loans will help finance the purchase of two complete 15 kilowatt gas turbines and generators from the General Electric Company and one complete 15 kilowatt gas turbine from Westinghouse International Corporation.

*Petróleos Mexicanos S.A.* (PEMEX) and *Nacional Financiera S.A.*, two state corporations of Mexico, have received some \$8.6 million in loans from the Export Import Bank. PEMEX obtained a direct loan of \$6.3 million and a financial guarantee for an identical sum for a loan from yet undesignated sources, to help finance U.S. equipment and services required by a \$24 million ammonium plant with a daily capacity of 1,000 metric tons to be built in the state of Veracruz. *Nacional Financiera* was awarded a direct loan of \$2.29 million by Eximbank, and another loan in the same amount from the Bank of America, to assist in the development of an iron mine, the establishment of an ore concentrating plant and a concentrate pipe line connecting the two sites. Total estimated cost of the project is \$46.6 million.

#### GAS AND OIL

*Petrobras* of Brazil is to build a new refinery with a capacity of 300,000 barrels per day. It is expected to be productive in five years' time, soon after the new refinery of Apucarana in Paraná. Between them, the two refineries are expected to increase *Petrobras'* refining capacity by about 60%.

The Colombian Petroleum Institute, *Ecopetrol*, will complete this year the signing of a total of twenty-three contracts with foreign companies for the exploration and exportation of petroleum. More than 4 million hectares of land are involved, representing an initial investment of \$100 million in the most intensive petroleum search that has ever been undertaken in the country.

The Peruvian state oil concern, *Petroperú*, has signed an oil prospecting and exploitation agreement with three foreign companies authorizing them to operate over one million hectares in the Amazon jungle. The agreement is for service contracts under which the companies will be paid with a proportion of the oil extracted, while the remaining reserves and equipment will revert to the State after 35 years.

The Venezuelan Government has announced that the 1973 budget will have to be cut back if oil production does not return to projected volumes.

Ministers of Energy and Petroleum from twenty countries meeting in Caracas, in August, called on Latin American importers and exporters to deal directly with each other, thus by-passing the big international companies. They also propose the formation of a joint Latin American organization dealing with power, and the creation of a unified power



market in the region. The conference foreshadowed the establishment of a joint body to finance development, production and trading in all forms of power, as well as of a Latin American oil tanker fleet.

The existence of a bituminous belt in Venezuela, renamed by Venezuelian experts the petroleum belt of The Orinoco containing medium and light crudes along a 385 mile long area, would represent a reserve of approximately 70 million barrels—more than five times the present proved reserves of the country—assuming a 10% minimum recovery of oil, according to estimates. Venezuela is presently awaiting a formal proposal from the United States Government before starting a possible joint development. Estimated production has been calculated at 500,000 barrels a day and would require an investment of \$1 billion.

#### LAND TRANSPORTATION

Two big suspension bridges, four approach viaducts and miles of railroad and highway are being built in Argentina, connecting the rich province of Buenos Aires to the area known as "Mesopotamia," across the Paraná river. The project, with a price tag of \$100 million, is scheduled to be substantially completed around April 1974.

Bolivia's most important highway was recently inaugurated. The road extends from Cochabamba, about 300 miles from the capital at La Paz, to the port of Villarroel. The highway, only 125 miles long, is located in one of the most inaccessible and wet areas of tropical Bolivia, and required an investment of \$51 million, provided by the United States. The highway will facilitate industrial and commercial exports. The road also represents the first link between western Bolivia and the rich and isolated region of Beni on the Brazilian border. The area contains cattle ranches and a range of products from rubber to sugar and rice. In addition, there are oil, minerals and many kinds of lumber. The project required five years for completion and encompasses a total of 42 bridges, some of which are 1,000 feet long.

International bids are to be called for construction work on the proposed Rio De Janeiro-Santos highway, in the amount of \$40 million, the amount to be loaned by the Inter-American Development Bank. An additional \$90 million is to be lent by a unit of the Brazilian government from its own resources of Brazilian equipment and services.

The Colombian Government has selected a U. S. company to make the studies and final plan of approximately 45 miles of urban highway improvements in the District of Bogotá. Colombian authorities estimate

that the project could be completed in three years, and expect to apply for financing to the World Bank or other international lending agencies. These proposed highways, in 25 sections and with 35 intersections, are the remaining elements necessary to complete an urban highway master plan which was developed in 1961.

The Andean Automobile Transportation Association was formally organized in Lima, Perú during a meeting of representatives of the five countries of the Andean Pact. The creation of this organization will permit the Andean countries to have a voice and vote in the deliberations and decisions of the Latin America Automobile Association. The object of the Association is the establishment of free passenger and cargo transportation to the region and the unification of transportation and traffic norms.

A 30-mile subway network, costing \$800 million, is in the planning stage for Caracas, and it has been reported that government approval for the construction of the first five miles will be forthcoming shortly. It is anticipated that the system will be completed by 1980. Plans include a system of 50 stations, each of which will receive a train every 90 seconds during periods of normal use. The 7-car trains should be able to handle 40,000 people per hour in each direction.

#### MARITIME AFFAIRS

To support a \$4.25 million sale of U. S. scientific equipment and related services for an oceanographic vessel for the Argentine government, Eximbank has authorized a direct loan of \$1.8 million to finance 43.5% of the U. S. cost.

The Argentine government is building an oceanographic vessel at the Astarsa shipyard in Argentina at a total cost of \$10 million. Thyssen Steel of the United States, through Raytheon Service Company, a subsidiary of Raytheon Company of Lexington, Massachusetts, is supplying the oceanographic, navigational and communications equipment being financed. Raytheon's technical services will be augmented by specialists from the Woods Hole Oceanographic Institute and associated subcontractors.

Bahamian authorities are studying the possibility of building a new all-cargo seaport on New Providence Island to free the existing port in downtown Nassau for cruise travel. The Bahamian Ministry of Transport recently revealed that the new port is being examined by transportation officials.

The Port of Paranagua, on the coast of Paraná, Brazil, is growing more rapidly in terms of cargo handled than any other port in Brazil. Paranagua specializes in bulk handling techniques, which have permitted it to cut charges to well below those of other ports. It is estimated that the volume of goods handled in Paranagua will pass the three-million ton mark this year, having grown at an annual rate of 35% for the last five years. It is expected that the gross will be maintained as a result of new silos and a rail terminal which is presently under construction.

Following lengthy negotiations and in an effort to rationalize and discipline freight services between ports in Brazil and the U.S., authorities of the respective countries have signed an administrative agreement on equal participation in the transportation of cargo controlled by their respective Brazilian and U.S. shipping companies. The Agreement establishes a 50-50 division based on value of freight, tonnage and cubic space and will be enforced at the end of 1973.

A fishing company financed by Chilean and Ecuadorian capital has been set up to process and export frozen fish caught in Ecuadorian waters. The plant is able to handle up to 240 tons of fish per day.

An agreement between the Colombian Shipyard Association and the Brazilian Association of Industrial Fishermen has been negotiated for the exportation to Brazil of twenty-eight 74 foot shrimp fishing boats. The export contract constitutes an unprecedented action in the Colombian shipping industry, in that Colombia took part in an international bidding competition in the Brazilian shrimp fleet program.

Plans have been prepared for a container-harbor on Curaçao which would operate as a port for container shipments consigned to other Caribbean destinations and Latin America.

Port facilities and services in Port-au-Prince, are to be expanded and improved, and its management strengthened, with the aid of a \$10 million loan from the operations of the Inter-american Development Bank. Total cost of the project, handled by the Port-au-Prince Port Authority, is estimated at \$11.4 million. This is the second stage of a program designed to increase the cargo handling capacity of the port from 235,000 to 510,000 tons per year by 1977 and to provide more comfort to arriving passengers. The port authority carried out the first stage of the program at an estimated cost of \$2 million.

Haiti's first free port is in business off the north coast of the island. Vessels from the U.S. arrive with supplies at Turtle Island, a free port in the fullest sense of the word since it will not have taxes of any kind.

A fishing industry plan based on a study undertaken jointly by the Inter-American Development Bank and the United Nations Food and Agricultural Organization has been presented to the Mexican Government by IDB. The Plan, divided into 13 subprojects requiring an investment of \$96.4 million, is the most extensive yet drawn up by the Bank and is one of the largest of its kind in the world. It encompasses the updating and expanding of Mexico's fishing fleet and port services and the establishment of a distribution network with twin poles at the port of Mazatlán on the Pacific and Alvarado in the Gulf of Mexico. In recent years, IDB has been extremely active in this field, having financed the drafting of fisheries projects for the Dominican Republic, Costa Rica and Barbados, with an estimated investment of \$12.7 million, in addition to providing technical assistance to institutions and programs in Argentina, Chile, Mexico and Panamá. It is now readying technical missions to Brazil, Haiti, Panamá and Venezuela.

In Managua, the Fisheries Division of the National Development Institute has announced that a pilot oyster project will be initiated shortly in Bluefields Bay with the assistance of British experts. If the results are satisfactory, Nicaragua plans to launch large-scale oyster breeding for commercial purposes. At present, a few individuals and small groups work the natural oyster banks of the Atlantic coast, but the size and quantity of the yield fall short of export requirements.

The ferry service of Potosi, Nicaragua, was recently completed at a cost of some \$400,000. This project constitutes the first portion of the comprehensive ferry boat program agreed upon between El Salvador and Nicaragua. It is expected that the service will underwrite the transportation of merchandise representing a value of some \$150 million per year between the four countries of Costa Rica, El Salvador, Guatemala and Nicaragua.

An extensive fishing complex is being established at Paita in north Perú as a result of a development plan based on a study of the fishing resources, markets and facilities of Perú's entire coast. It is reported that the Ministry of Fisheries has reached agreement with the Soviet Union regarding equipment for processing plants, as well as for major construction on site.

A fishing crisis of major proportions has developed in Perú. More than 25,000 unemployed Peruvian fishermen have been receiving government checks to help carry them over a costly slump in the fishing industry. Anchovies, the raw material of Perú's fishmeal industry and formerly the nation's principal foreign currency earner, have almost disappeared

from Peruvian waters. Experts have speculated that their absence was caused by warming of the usually frigid Humboldt Current.

#### METALS AND MINERALS

A joint Peruvian-Japanese venture is to be set up to exploit the Michiquillay copper deposits in the northern portion of Perú. The Japanese government will lend \$60 million for infrastructure works while financing for the actual mining operation will come from Japanese mining companies. The total capital investment is estimated at \$380 million with production to start in 1978.

Japan has also offered to finance the exportation of manganese at Molango, in the State of Hidalgo, according to the National Mining Institute of Mexico. Under the proposal, Japan will take the entire output of manganese for a 10 year period.

Colombia and Mexico are to set up a joint company to exploit Colombian coal deposits, which will supply the Lázaro Cárdenas-Las Truchas steel complex under construction on Mexico's Pacific Coast.

The Brazilian Government is calling for bids to exploit the deposits of potassium, magnesium, and rock salt discovered by a State-owned company investigating for natural resources. Bidding companies must be 51% Brazilian, with *Petroquisa* (a subsidiary of *Petrobras*, the Brazilian Petroleum Institute) holding at least 26% of the equity.

The United States Overseas Private Investment Corporation announced recently that it has approved full payment of \$11.89 million to the Anaconda Company for the loss of its equity investment in the Exotica copper mine in Chile nationalized in 1971. The insurance claim payment is the largest ever made by OPIC or its predecessor agencies, and marks the fourth settlement the corporation has made in regard to Chilean nationalizations. At the same time, OPIC denied Anaconda's claims totaling \$154 million on its former Chuquicamata and El Salvador mines, stating that these mines had been nationalized in 1969 at a time when Anaconda's insurance coverage was not in effect.

OPIC recently announced that it has received the equivalent of \$448,000.00 from the Chilean Government as a partial reimbursement for a claim paid to the Ralston Purina Company of St. Louis, Missouri in May of 1972. The payment partially reimbursed OPIC for \$614,475.00 which it paid to Ralston Purina for losses incurred when *Alimentos Purina de Chile*, a feed plant and poultry operation, was intervened in November of 1970.

The Ministers of Mines of the Intergovernmental Committee of Countries Producing and Exporting Copper (CIPEC) — Perú, Zambia and Chile — met in Santiago, Chile in November with a view to taking measures against embargoes by multinational companies. This is the result of the action taken by Kennecott Copper against 1,250 tons of copper shipped from Chile to France. Kennecott contended before French and other European courts that because it had owned the mines prior to the time they were nationalized by the socialist government of Chile, it was still the rightful owner of the copper. Meanwhile, the legal battle between Chile and Kennecott continues with attendant political repercussions. President Allende has denounced U. S. multinational companies in various places including the United Nations. The U. S. Government is remaining aloof on the grounds that the matter is a private one between U. S. companies and Chile.

#### MONEY AND BANKING

Bahamian monetary authorities have ordered all foreign currency held by Bahamians and non-citizens who have lived in the islands for a year converted to Bahamian money. The rule applies to bank accounts containing foreign currency and requires a Bahamian resident who gets foreign money to swap it for his country's currency as soon as possible. The currency restrictions do not apply to non-resident individuals and corporations, some of which use the Bahamas as a "Swiss Bank" style of depository.

As the initial step to establishing a constant flow of credit to Barbados from the Inter-American Development Bank (IADB), Barbados will soon sign a new agreement with IADB.

Eximbank has authorized financial assistance to support \$6.6 million of sales of U.S. goods and services in two credit facilities totaling \$3.5 million in favor of *Banco Regional de Desenvolvimento Do Extremo Sul* of Porto Alegre, an independent Brazilian development bank which was established in 1961 by local state governments to promote the development of small and medium-sized companies in Brazil's southern region. Repayment terms on both facilities will be in accordance with terms customarily used in international trade for the export sale transaction being financed. Interest on Eximbank's portion of the funding will be at the rate of 6% per annum on outstanding balances.

Brazil is studying a new system for calculating monetary corrections.

The government of Jamaica has introduced a number of austerity measures in a bid to halt the deteriorating balance of payments situation.

The government's borrowing powers have been increased by \$240 million, commercial bank loans have been restricted, and imports of radios, canned goods, alcohol and soft drinks have been banned.

With the takeover of another private bank, the Mexican Government has announced that it now controls 50% of all banking resources in the country. The Mexican Secretary of the Treasury said the Government has acquired a majority interest in the *Banco Internacional, S.A.* with payment of a debt of \$37 million incurred by the former owners of the Bank as a result of the bankruptcy of one of their other enterprises. Another private bank in difficult financial straits, *Banco Mexicano, S.A.*, had passed into government hands earlier. The present administration, while denying that it has any intention of taking over the whole private banking system, has recently moved towards greater control of the private sector, alleging that the credit policies of private banks are too conservative. The Country's two biggest banks, *Sistema Bancos de Comercio* and *Banco Nacional de Mexico*, are still in private hands.

Venezuela and Colombia have offered to contribute \$8 million to the Special Resources Fund of the Caribbean Development Bank. The two Latin American countries were unanimously admitted to membership in the Bank at the second annual meeting of the Board of Governors held recently. Venezuela has offered to contribute \$5 million while Colombia has offered \$3 million. A news release stated that the two countries would each purchase shares and would be entitled to select a director on the Board of Governors of the Bank.

#### TELECOMMUNICATIONS

The Government of Perú has expropriated the National Telephone Company (CNT) of that country. A deposit of \$270.9 million *soles* has been made with the *Banco de la Nación* for the nominal share value. The state communications agency has taken over the company's services.

A telecommunications center in the Windward Islands is being erected on reclaimed land in Philipsburg, St. Maarten. The building will house a main link in the \$8 million project for an undersea cable of 160 channels from Curaçao through St. Maarten to St. Thomas. The project includes cable linkage points, an inter-island and international telephone exchange and telex center.

#### MISCELLANEOUS

Brazil and Argentina have agreed to the construction of the world's largest dam, which will bridge the Paraná River and end more than 100

years of dispute over the river. The proposed dam, which will be built by Brazil, will be 50% bigger than Egypt's Aswan Dam. It will hold six trillion cubic feet of water, 2.5 trillion more than the Nile, and will boost Brazil's power supply by 150%. The dam will be built at Sete Quedas, which lies between Brazil and Paraguay.

The Confederation of Commercial Associations of Brazil has handed a memorandum to government officials, in which it points out that some fiscal requirements are much stricter for small and medium companies than for large concerns. Amongst a number of claims the memorandum asks for: a realistic definition of a small and medium company, simplification of trade registration and fiscal books, particularly for individual firms, taxation exclusively at source, at the interested party's option, of profits or unidentified bearer shares.

#### MEXICAN THESIS ON FOREIGN INVESTMENT

##### DISTINGUISHED MEMBERS OF THE UNITED STATES- MEXICO COMMITTEE OF BUSINESSMEN:

The President of Mexico has honored me by asking me to represent him at this breakfast to which you kindly invited him a week ago. Urgent matters have made it impossible for the President to be with you at this time, but he has asked me to transmit to you his most cordial greetings.

It is a pleasure for me to have this opportunity to talk with the members of this Committee after the work sessions held during the last three days at Acapulco. I trust that the results of your discussions have been mutually-advantageous for our two countries and have strengthened the ties between the businessmen of Mexico and the United States.

We have followed the press reports on your work and have observed that one of the main topics has been foreign investment. This is a subject that always arouses the keen interest of public opinion and is usually on the agenda of the meetings of the Committee. There is much to say about foreign investment, but at this time I would like to make only a few remarks and to remind you that the policy of the Mexican Government — in particular that of the present Administration — is perfectly well defined on this matter.

I believe that within the context of contemporary international life, not only for Mexico, but for the entire world, the topic of foreign investment should be presented by asking ourselves if the investment from



abroad should be determined exclusively by the yield or profit that the foreign investor hopes to obtain or if it should also and basically be considered as an instrument that aids the development of the countries that receive it and conforms to the policies and aims established by these countries for their own development.

Mexico's policy in this matter is inspired by the principle that foreign investment is acceptable and welcome when it accelerates and promotes our development and conforms to the objectives we have outlined, without ignoring the right of the investor to obtain a legitimate profit on his investment.

This policy was established by the President of Mexico on the date of his inauguration, December 1, 1970, when he took the oath of office and said:

Foreign investment should not displace Mexican capital but complement it through association when this is considered useful. Mexican capital in any case, should handle such association with discernment, dignity and patriotism, and use this capital to modernize its plants. Accordingly, we shall give preferential welcome to foreign investors who, advised by Mexicans, will establish new industries, contribute to the continuous development of technology and manufacture articles for export to all markets, including their own.

Since the President's first day of work, the policy of the present Administration was defined in these terms and it has been reiterated by the Chief Executive himself on several occasions. Thus, for example, in the speech delivered by the President of Mexico at the luncheon given in his honor by the Mexican-American Chamber of Commerce in New York City on June 17, 1971, he said:

Direct foreign investments are, in a sense, a way of economic complementation. In the past they were only an extension of the interests of the countries where they originated. Now they are understood to be an element of international economic cooperation. They should therefore conform to the domestic development policies of the countries that receive it. This is, in short, what we understand by "Mexicanization."

Foreign investment will be welcome insofar as it contributes to the improvement of our technology, promotes the development of new and dynamic industries, produces goods for export to the entire world and contributes to the achievement of our national goods.

Mexico is not interested in having foreign investors acquire companies that are already established, because this does not usually mean any net capital gain, transference of technology, substitution of imports or the creation of a new source of employment.

Mexico, during the last few decades, has made undeniable progress along the road to its economic development. We cannot doubt the magnitude and the results of the effort made, which had as a basis the savings and work of the Mexican people. But the very dynamism of this process brought about imbalances and distortions that threatened the continuity of our development and had to be overcome.

President Echeverría's administration, as you know, has presented a new strategy and a change in the objectives of Mexico's growth which is now channeled toward the achievement of qualitative and not merely quantitative goals. We are attempting to reorient the strategy for our development, but on bases that will make it more homogeneous, more just and more stable. We know that a development that fails to conform to justice will always be a danger to democracy and liberty.

We conceive of development as a process which tends to liberate and to update our creative capabilities and energies; to favor better utilization of our natural and human resources; to raise the general standards of living of the people; to increase our indices of efficiency and productivity; to create greater opportunities for all and to make us ever more autonomous and masters of our own destiny. We want a development that will make our nation more independent and give greater freedom to all Mexicans.

We know that development is a collective and shared task. For this reason we have asked investors, as well as all Mexicans, to change old mental structures. We have also created different instruments of promotion and encouragement so that the effort and investment made by Mexicans will conform to the new goals we have set for ourselves and to the policies we have established to attain them. We expect the same change from foreign investors who wish to share with us the task of promoting Mexico's development.

Mexicans also know that in spite of the fact that the rate of capital formation in Mexico has been very high and that 90% of this capital has come from domestic savings, foreign investment can be a useful complement to accelerate our process of development and to satisfy shortages and the urgent needs of our people more rapidly.

In a talk I gave on April 26, 1972 in New York City at the invitation of the American Management Association, I pointed out that foreign investment can only assist and promote the development of Mexico if it conforms to the following guidelines:

1. To follow the laws of Mexico.
2. To complement and not displace domestic capital, and not to direct its effort towards fields already covered adequately by domestic enterprise.
3. To seek new fields of action or new industries.
4. To associate with Mexican capital, on a minority basis as a general rule.
5. To give preference to Mexican citizens in the employment of technical experts and administrative personnel and to comply with the legal regulations relative to the training of Mexican personnel.
6. To provide advanced technology and contribute to the development and creation of the technical methods best suited to Mexico's needs.
7. To produce export goods that can also be sent to the foreign investors' markets.
8. To become part of Mexico's economy through the maximum possible use of domestic inputs and components.
9. To finance their operations with foreign resources and not resort to internal credit which is limited and formed by the savings of the Mexican people.
10. To conform to and to assist, in general, in the attainment of the objectives and policies of Mexico's development to which I have referred before.

One of the aspects which President Echeverría has specially stressed since his inauguration is that foreign investment should be directed toward the increase of our exports. Mexico's growth in the past was focused fundamentally toward the domestic market and was based on the substitution of imports which was protected and sought at almost any cost. Now we want to establish a new industrial development strategy to increase our exports and to obtain an outward thrust. The increase of our exports is essential to provide us with the foreign exchange we need to acquire the capital goods and technology required for Mexico's develop-

ment and to balance the outflow of money in the form of dividends, interest and royalties, which arises from foreign investment.

The Echeverría administration has created a series of incentives to promote exports and has stimulated an export awareness among Mexican industrialists. Some of the measures it has taken are: the establishment of the Mexican Institute for Foreign Trade, the strengthening of the economic activities of our Foreign Service, the work being done by the Port Coordination Committee, the Decree of March 17, 1971 which contains provisions for rebates of internal taxes, and the facilities being granted to set up export companies.

We are ready to share our internal market, resources, labor, and the capital of Mexican investors with investment from abroad. However, we expect foreign investors in Mexico to reciprocate by sharing world markets with us when our country is in a position to enter them on a competitive basis. For this reason, we now attach great importance to the improvement of our levels of efficiency and productivity.

We are also interested in continuing to substitute imports. However we wish to accomplish this with a more efficient and productive industry which will make it possible to pay the workers better wages, without sacrificing the consumers.

Legitimate foreign investment is regulated in Mexico by a system of laws and legal provisions or regulations. Article 27 of the Mexican Constitution sets forth the fundamental principle upon which this system is based. It states that any foreigner who acquires property or an interest or share in a company shall agree to consider himself Mexican and not invoke the protection of his government with respect to such property which he will lose and which will be turned over to the Mexican Government if he violates the agreement. This provision, known internationally as the Calvo Clause, is, as I said before, a basic norm on this matter and the expression of our sovereignty.

In addition, there are other legal provisions or regulations that establish prohibitions or restrictions in certain specific activities. These fields are:

*I Activities reserved exclusively for the State because of their importance for the security or economic life of the country.*

These include:

- a) Petroleum
- b) Basic petrochemicals

- c) Electric power
- d) Railroads
- e) Telegraph and wireless communications.

II *Activities which likewise, for reasons of economic or public security, are reserved exclusively for Mexicans or Mexican companies under the clause that excludes foreigners.*

These include:

- a) Radio and television
- b) Automotive transportation on federal highways
- c) Gas distribution
- d) Forestry operations.

III *Activities requiring majority Mexican capital.*

a) *Seventy-five per cent Mexican capital:*

Credit Institutions and Auxiliary Organizations, Insurance Institutions and Bonding Institutions. In the case of foreigners, only individuals may hold a share of the capital which shall in no case be greater than 25 per cent, subject to prior approval by the Ministry of Finance and Public Credit.

b) *Sixty-six per cent Mexican capital:*  
Exploitation of national mineral reserves.

c) *Sixty per cent Mexican capital:*  
Petrochemical industry by-products.

d) *Fifty-one per cent Mexican capital:*

1. Agriculture.
2. Fish hatcheries and fishing.
3. Rubber industry.
4. Publishing and advertising.
5. Production of carbonated beverages and bottled soft drinks, including essences, concentrates and syrups used in their preparation.
6. Production, distribution and exhibition of motion pictures.
7. Urban and inter-urban transportation.
8. Maritime, air and surface transportation.
9. Coastal services.
10. Mining (ordinary concessions).
11. Cement.
12. Steel.

13. Glass.
14. Fertilizers.
15. Cellulose.
16. Aluminum.
17. Commercial manufacture and distribution of arms, ammunition and explosives.

*IV Acquisition by foreigners of real estate within the national territory.*

Acquisition of real estate within the national territory by foreigners is regulated by Article 25, paragraph 1, of the Mexican Constitution under the Organic Law of this paragraph and its Regulations which set forth the following rules:

1. Foreign companies may not acquire real estate within Mexican territory.
2. Foreigners may not acquire real estate within a strip 100 kilometers wide inland from the coast-line nor may they be members of Mexican companies that acquire ownership within such a strip.
3. Outside of the prohibited zone, foreigners whose main source of business is in the country or who have legal residence may own real estate subject to agreement with the Federal Government that they will consider themselves Mexicans with respect to such property and will not invoke the protection of their respective governments but will remain subject to Mexican law in regard to such acquisitions.

*V Border and coastal zones.*

In order to accelerate the economic development of the border and coastal zones of the country, the President of Mexico issued a resolution to the Ministry of Foreign Relations on April 29, 1971, authorizing it to grant permits to credit institutions to acquire, as trustees, real estate intended exclusively for industrial and tourism activities within a strip 100 kilometers wide along the borders and 50 kilometers wide inland from the coastline, provided the purpose of the acquisition be exclusively for the use and enjoyment thereof by individuals, who may be foreigners, either as trustees or as holders of registered, nonamortizable real estate certificates.

Thereby, as a reaffirmation of the mandate of our Constitution of 1917 which prohibits the transfer of property to a foreigner in the previously mentioned zones, the trustee is authorized, in the exercise of this

individual right, to use and enjoy the respective real estate and, through the real estate certificate of participation, he has the right to an aliquot part of the fruits or yield that might accrue and to the net profit in case of sale of the property.

The Mexican Government, through the issuance of this resolution, is seeking to eliminate the various subterfuges used by some foreigners in attempting to circumvent the constitutional prohibition.

Taking into consideration that utilization of the country's resources should preferably benefit Mexicans, foreign investors participating in existing trusts, as well as in those pending authorization, are being invited to join with Mexican investors and share with them, severally, in the risks and benefits of promotions, primarily for tourism, that they are undertaking.

Consequently, a system of norms exists which controls the participation of foreign capital in very important fields of endeavor. In other activities, where there is no express limitation, there exists, in its stead, a well defined policy several years old which determines that the majority of stock, both in established enterprises or in enterprises that are to be established in the country, must remain in Mexican hands.

This policy is a means for Mexicans to participate, in a preponderant and responsible manner, in the life of their country and in the economic decisions that affect it. We do not want the development of our economy and our progress to be subject to decisions taken outside our borders.

This does not mean that we will not accept foreign capital to be invested in those fields allowed by our laws. We accept it gladly, but only in a balanced relation to our own investment. What we want, as I stated in my talk to the American Management Association, is for Mexicans to be the partners, not the employees, of foreign capital; co-participants and friends, not subordinates. And this is not only because such a situation would favor our wish to be more independent in our development, but because experience has shown that it is also better for the country and for the foreign investor himself.

This policy of Mexicanization avoids the tensions that foreign investments may bring about when public opinion feels that decisions which may have an important effect on the economic life of the nation are being taken outside the country.

This is why a policy of this type cannot be fully put into effect if Mexicans do not have an authentic power to take decisions on matters

that affect an enterprise, or if they are barred from administrative or technical positions when Mexican personnel is available.

By means of this policy, we definitely want Mexican capital to participate more and more in the companies already established in the country. Experience has shown us, as I said before, that the association of national and foreign capital is favorable to both parties. Many enterprises that were originally founded in Mexico with totally foreign capital have later sold part of their shares to Mexican investors with excellent results for both. The association of national and foreign capital has produced better mutual understanding and respect and has brought about a combination of technical knowledge from abroad and a knowledge of the market, the laws, habits, customs and traditions of Mexico with which, logically, local investors are more familiar.

We are aware that there are times when it is not easy to find Mexican capital immediately available for a majority participation in a new investment. In such cases, when justified, procedures are allowed to establish the terms and conditions under which stock will later be put on the market to be bought by Mexican nationals. Our policy is realistic and responds to the fundamental purpose of receiving foreign investments to the extent and under the conditions most favorable to our development. This is why we allow exceptional cases, such as the inbond industries or export companies, to which we offer special conditions without demanding a majority participation of Mexican capital. In other words, we invariably seek foreign investment in accordance with the economic priorities of the country, and this policy is also well-established.

In the process of Mexicanization, there have been recent cases which have taken place with the participation of the Government. The present Government of Mexico has bought shares in several companies by means of negotiations and these purchases have been perfectly understood and accepted both by national and by foreign public opinion.

One of these cases was that of the Cananea Mining Company (Cía. Minera de Cananea, S.A.). Negotiations were begun around the middle of last year, resulting in Anaconda, which up to that time had totally controlled the company, retaining 49 per cent of the stock. The remaining 51 per cent was divided as follows: 26 per cent for the Federal Government; five per cent each for Financiera Banamex and Cobre de Mexico (the company that refines all the copper produced at Cananea and in which the Nacional Financiera has an interest); three per cent to be acquired by workers and employees of Cananea and the remaining 12 per cent has been put on the open market for sale to the Mexican public



in blocks not to exceed one per cent of the total, in order to encourage participation of the people in these ventures.

At the end of the negotiations that concluded the operation, Anaconda representatives stated that they were in full agreement.

In this way, the intervention of the Government has made it possible for Mexicans to acquire majority participation in the main copper-producing enterprise of our country. The Mexicanization of this enterprise has made it possible to undertake programs that will double production capacity in the next three years with an investment of over 90 million dollars and export 5,000 tons of copper in 1972, for the first time in many years.

Through agreements made last August, the Mexican Government acquired enough stock to attain 51 per cent of the capital of the Mexican Telephone Company (Teléfonos de México, S.A.), of which it had formerly owned only 48 per cent. The decision to change the capital structure of this enterprise was motivated by the termination, in June 1976 and 1978, of the concessions granted to this company by the State. Because the termination of the concession was in view, the company was limited in its capacity to obtain the credit it needed to continue to expand its investment programs. Consequently, the purchase by the Government served to strengthen and consolidate the position of the company. The right of stockholders to continue to receive a net income of 10 per cent on their investment was respected. Stockholders who sold their holdings also publicly accepted the terms of the operation.

Finally, in September 1972, the transaction by which the Mexican Government acquired all the shares of the Pan American Sulphur Company (Azufrera Panamericana) was completed. In 1967 the Company had sold 66 per cent of its capital. Thus, the production of Azufrera Panamericana can in the future be oriented and managed totally in accordance with national interests.

On the other hand, Mexico has maintained a stable exchange rate. Parity with the dollar has not varied since 1954 and we did not hesitate to maintain it during the monetary crisis of last year. We continue to maintain an unrestricted system of free exchange in which there is no limit or control over the free movement of foreign exchange for Mexicans or foreigners. We have affirmed our decision to avoid the multiple problems which currency controls would give rise to in Mexico. Stability of prices continues to be a distinctive feature of our development. In a world subject to great upheavals, the people of Mexico still find in their

constitution and laws a system which permits them to adapt to changing circumstances and find peaceful solutions to their problems within a climate of freedom.

Thus the norms and principles for foreign investment in Mexico are clearly defined and there is no change in the circumstances which have made our country attractive to both domestic and foreign investors.

There is a deep feeling of national unity in support of the policies of President Echeverría. The effort which the administration is making to adapt our process of development to the needs which have arisen in this stage of our growth is understood abroad. We know that development demands an ability to change in order to adapt to new circumstances. The norms established offer short-term security, while the exchange rate is a long-term guarantee.

Mexican businessmen who work in close contact with our Government and other sectors of the population are not worried about the results of our policies or the future of Mexico. If those who live and work here, if our own citizens are not worried, we believe that our friends abroad and those who in one way or another deal with Mexico should feel no concern.

With regard to foreign technology which was also a topic of your discussions according to newspaper accounts, I wish to inform you that the policy which we want to follow is the same as the one we have established for foreign investments. We shall use and accept technology to the extent that it helps further our development and adjusts itself to our needs and objectives. We shall endeavor to eliminate practices or stipulations which in any way limit our exports, hinder the development of our own technology, increase the cost of our production and constitute obstacles to the autonomy of our development. In short, we want technology to be an instrument for development and not a means of subjugation. It is hardly necessary to tell you that in the implementation of this policy we shall proceed with a strict adherence to the law and to the norms of our country.

In these moments of confusion which the world is living through, Mexico has reiterated its decision to follow its chosen path of democracy with justice and freedom. It is true we seek to achieve more just ways of co-existence and higher standards of well-being for all our citizens, but without a loss of freedom. We recognize human liberty as a supreme value and individual initiative as the life force of progress.

We have defined our development as a process of growth within freedom and governed by justice. President Echeverría has begun the renewal of everything that must be improved within the limits of the basic institutions that the Mexican people have created for themselves.

Our national unity is based on formulas for co-existence which make all Mexicans, without exception, participate in the national life and in our process of growth. We recognize the right of management to receive a reasonable profit in compensation for its efforts. But we hold that every businessman, whether in his own country or abroad, should endeavor to ensure that his investment fulfills a social function and responds to authentic collective needs. To seek only maximum profits is not the best or healthiest of policies and does not even produce the best results in the long run.

Investors from more advanced countries have, in regard to the less developed ones, a responsibility which goes beyond making a profit and becomes a duty of human solidarity in order to create a more just and generous world for all. In the face of other ways for development, Mexico follows its own road, but at the same time it maintains a friendly attitude towards all countries. For this reason, we welcome foreign investors who, with a feeling of solidarity and respect for our laws and objectives, come to share with us the task of furthering our development.