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ECONOMIC DEVELOPMENTS

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ADELA

Adela, the multinational investment company, continues to expand its activities. This Luxembourg based concern, which has earmarked a total of \$45.7 million for Latin America since it was organized three and a half years ago, has a diversified portfolio. Among its investments: paper and paper pulp, agriculture, capital goods, chemical products, textile products, iron and steel, manufactured goods, minerals, finance companies, forestry, and service industries.

Recent activities include its agreement with Braniff International Airways, Western International Hotels, and Deltec Panamericana for tourism and hotel development in Latin America. A total investment of \$150 million over a period of seven to ten years is envisioned. Another noteworthy development is its relationship in Venezuela with the Corporacion Venezolana de Fomento in a program of identification of industrial opportunities. Lastly, Adela has concluded negotiations with the U. S. Agency for International Development for long term extended risk guarantees.

Adela's membership now consists of 165 concerns headquartered in eighteen countries.

LAND TRANSPORTATION

New roads are under construction in Guatemala, Nicaragua and Costa Rica under the auspices of the General American Fund for Economic Integration; additional roads are planned in Honduras. The Economic Integration Fund, which under new pledges by the U.S., has resources amounting to \$85 million is to be used primarily on infrastructure projects such as roads, telecommunications, airports, ports, and industrial parks.

Peru, Bolivia, Paraguay and Argentina have indicated their intention to request \$145 million from the Inter-American Development Bank

for a transcontinental highway which will join the East and West coasts of South America.

Brazil and Bolivia have agreed, in principle, to request a loan from the IDB to complete the railway joining the East and West Coasts of South America. It is predicted that this will accelerate the economic integration of Argentina, Bolivia, Brazil, Chile, Paraguay and Peru.

Chile has obtained \$9.8 million for improvements to the national railway system.

Colombia is engaged in a major improvement of its highway system and rail facilities. International financial institutions such as the World Bank and the Inter-American Development Bank have advanced extensive credits for railroad rolling stock and for the repair and construction of national highways. A major loan amounting to \$12.7 million was earmarked for the completion of the Caribbean Trunk Highway destined to join the resort areas of Colombia with Venezuela's highway system.

Sao Paulo expects to initiate construction work on a subway system in the near future. When completed, it will be the third of its kind in Latin America; Buenos Aires' system is operative, and Mexico City's is well on the road to completion.

U.S. EXPORT ASSISTANCE PROGRAM

The Department of Commerce has announced a new Joint Export Association (JEA) program to assist groups of U.S. manufacturers to boost foreign market sales. The new program will provide financial assistance to eligible groups for specific market development over a period of two or more years. Eligible entities include trade associations or their components; groups of firms operating under the leadership of export management companies; groups organized under the Webb-Pomerene Act; and groups of firms specifically organized for the JEA program. The Department is ready to receive specific JEA proposals and has earmarked \$750,000 to initiate the program under which up to 50% of the cost of a project may be provided.

FINANCE COMPANIES

This type of financial institution continues to find favor and to grow in the Latin America area. At a meeting of private finance companies held in Tegucigalpa in August, 1968, plans were drawn for the establishment of an investment bank in the Central American isthmus. The matter was referred to a committee for further study in view of the possibility of conflict with local laws.

Help for the finance companies is coming from many quarters including the Export-Import Bank which, for example, authorized a \$1.5 million Alliance for Progress credit to a private finance company in Ecuador. The proceeds will be used to finance U.S. imports. Commercial banks, however, are keeping a close watch on the growth of these financial institutions. In Costa Rica, the Banco Anglo has apparently decided to meet the issue head on and announced plans to issue negotiable paper to the public. The proceeds will be used to make commercial and personal loans.

PORTS AND HARBORS

A deep water harbor at Montego, Jamaica has been officially opened. Improvement of the harbor is part of a \$100 million project which also contemplates the use of reclaimed land for an industrial park, hotels and apartments.

In July 1968, the Inter-American Development Bank (IDB) approved a loan to El Salvador for improvements in the port of Acajutla. The conditions under which the \$1.7 million loan was granted, i.e., long term (35 years); moratorium before first payment is made (5 years); and a reasonable "service charge" in lieu of interest, were well received in El Salvador. It was pointed out that "this was the type of financial aid" which Latin America needs.

Guatemala has chosen the zone of Champerico on its west coast as the site for a new Pacific port. Following the customary engineering studies, the Government will seek the necessary loans to finance the project.

Honduras' Puerto Cortes is undergoing substantial improvement. The first phase of the project calls for a new dock capable of handling four to five 300-foot ships, a maintenance building, and a warehouse 165 meters long and 30 meters wide.

Joint activity between the governments of Honduras, El Salvador, and Nicaragua continues regarding the Gulf of Fonseca. The three governments seek the industrial development of the area and are coordinating efforts through ODECA.

Guatemala and Honduras have requested the assistance of IDB for a study concerning the fishing and tourist potential of the basin of the Gulf of Honduras.

Although individual, bilateral, and multilateral activity runs high on the subject of port development, it appears that a more coordinated effort is in order. This was recognized and discussed by the Central American Working Group assigned to Maritime Transportation and Port Development which met in Guatemala in mid-September, 1968.

AUSTRIAN LINE OF CREDIT TO GUATEMALA

The firm of Steyr-Daimler Puch, A.B., a quasi government Austrian concern, has extended a \$1.25 million line of credit to Guatemala for the development of agriculture. Terms were 5% down, a second payment after a year, and the remainder payable at six months intervals. When the announcement was made, in Guatemala City, emphasis was placed on the liberal terms of the loan, on the acceptance of *quetzales* for repayment, and on the fact that no guarantee had been required from the bank of Guatemala.

WAREHOUSING

Considerable interest exists in the Central America area in the subject of warehouses. Although storage facilities exist in each country there is a wide divergence in types, sizes and suitability of the different installations. Discussions have been held in the area among private individuals and a plan exists to establish a net of general warehouses to serve the Common Market. The proponents of the plan submit that an efficient network would give added impetus to the agricultural, industrial, and commercial development of each Central American country.

FREE TRADE ZONES

The Dominican Republic has established two free zones; one at San Pedro de Macoris, and the other at Punta Caucedo. The former is located along a highway and is relatively small in size; the latter is a two and a half mile corridor connecting the port of San Andres with the Cabo Caucedo airstrip. The usual exemptions from import and export taxes are granted, and goods entering the national territory from the free zones are taxed on their imported components.

MONEY

The Central American area retains its interest in establishing a common medium of exchange. The advisability of such an exchange medium has been discussed at length in the past, and was one of the main topics at a seminar on the Central American Common Market held in New Orleans late in October, 1968.

The new Secretary General of the Central American Monetary Council, has stated that the first step in the establishment of a common medium of exchange in Central America is the creation of a monetary stabilization fund. He is of the opinion that the stabilization fund should consist of

25% of the monetary reserves of the Central American countries, but that since the reserves are insufficient, resort must be had to external sources. The U.S., through Presidents Kennedy and Johnson, has expressed its support for the monetary integration of Central America.

The move for a common currency is not limited to Central America. A similar proposal is being advanced within the Andean group, but discussions on the subject are still in the preliminary stages.

In 1968, Argentina became a member of the International Monetary Fund, and thus became the world's thirty-second country with an internationally convertible currency. Its new "hard" peso will be placed in circulation sometime in 1969, according to the Minister of Economy, and new and old currencies will circulate concurrently for about two years — the time estimated for the new currency to replace the old. Each new peso will be worth 100 old pesos, and the change over will cost approximately \$5.7 million. The change is being undertaken primarily for reasons of "financial prestige."

A major international financial readjustment took place in September, 1968 when representatives of the Government of Peru met with private banking officials of the U.S. An external debt of allegedly \$68 million owed to private U.S. banks was refinanced and Peru was granted a "substantial line of credit" from the same U.S. banks. It was predicted that the successful conclusion of the negotiation would result in adding to the stability of the Peruvian *sol*. Peru took an additional major step to restore confidence in the *sol* when it arranged a \$75 million stand-by credit with the International Monetary Fund late in 1968.

In May 1968, the value of the Chilean *escudo* was adjusted for the tenth time in the year by the Central Control Bank of Chile. Periodic adjustment of the *cruzeiro* also took place in Brazil during the year, with two devaluations occurring during the month of September. In the case of both countries, the adjustments are in keeping with the announced policies of the respective governments to avoid radical currency devaluations through periodic adjustments in the exchange rates. The two devaluations in Brazil in September came as a surprise to the public, since it was expected that adjustments would not occur more frequently than once a month.

Panama's *balboa*, Guatemala's *quetzal* and Honduras' *lempira* occupy the fourth, fifth and sixth place respectively with regard to purchasing power among the world's currencies. The U.S., Canada, and Great Britain are listed as first, second, and third in a report issued by the Commercial Banking System of Mexico.

SECURITIES MARKETS

Trinidad-Tobago has received a \$700,000 loan from the Inter-American Development Bank to create an investment fund.

Representatives from twelve American nations and Spain attended the Third Conference of American Stock Exchanges held in Rio de Janeiro in October, 1968. A permanent Stock Exchange Commission was created in Rio, and Federico Pena, president of the Buenos Aires Stock Exchange, was named its first Director. Participating countries were: Argentina, Bolivia, Brazil, Colombia, Chile, Spain, U.S.A., Honduras, Mexico, Nicaragua, Paraguay, Peru, Venezuela.

GAS AND OIL

The expropriation of International Petroleum's oil fields and the Telara refinery by the military government of Peru led the list of significant events in the last of 1968. A late development was the submission to the U.S. Supreme Court of Peruvian Government briefs alleging that the Company owes Peru \$974 million in back taxes and fines for the illegal exportation of petroleum. Further pressure was brought to bear by Peru in late November when, in a note to U.S. officials in Lima, it claimed that International Petroleum is a Canadian company, registered in Toronto.

Argentina and Bolivia have concluded an agreement to exploit Bolivia's gas fields. Recognizing the inadequacy of its own gas fields to meet the demands of the future, Argentine officials have turned to Bolivia and its abundant gas resources close to the Argentine border. The Bolivian subsidiary of Gulf Oil Corporation is participating in the venture by providing a large share of the funds required to build a pipeline to connect the gas fields of Bolivia with the Argentine pipeline system.

Offshore oil concessions adjacent to the west coast of South America are beginning to pay off. In August, 1968, Belco Petroleum Corporation announced an oil discovery well off Peru. It also reported indications of the presence of oil-producing sands in another area approximately thirteen miles from the first discovery.

In Central America, Continental Overseas Oil Company, a Delaware corporation, has formed Continental Oil de Costa Rica for the purpose of exploration and exploitation off the west coast of Costa Rica. The period for exploration is four years; for exploitation forty years. The local company has presented its proposal to the Ministry of Industry and Commerce, but legislative action is required before the matter will be officially completed.

In August, 1968, Guatemala granted four concessions for the exploration of oil in the departments of El Peten, Huehuetenango, Alta Verapaz, and Izabal. One of these was awarded to Hanna Mining Company.

The Surinam Parliament has approved an agreement with the Shell Surinam Exploration and Production Company to explore for and produce oil in an off-shore area. The company agreed to a 50% income tax, a royalty of 12½% of the wellhead value of the crude oil, and an annual surface rent of five cents per hectare during the first and second years, provision was made for a subsequent increase in the rent. It was also agreed that 75% of the company's staff would be Surinam nationals.

BANKING

U.S. banks continue their efforts to spread the scope of their operations in Latin America, but are meeting local opposition in certain countries. In Argentina, the acquisition of partial interest in the Banco Frances del Rio de la Plata by the Morgan Guaranty Trust of New York served to rekindle the smoldering debate on the acquisition of Argentine companies by foreigners. In Guatemala, the First National City Bank of New York and the Banco Atlantida of Honduras (a subsidiary of Chase Manhattan) have applications pending to operate in the country. Both requests are on "stand by" awaiting promulgation of a new banking law which has received extensive attention in its draft form from both the private and governmental sectors.

In Peru, however, a decree issued on September 14, 1968 liberalized the regulations concerning the ownership of Peruvian banks by foreigners; and, in Costa Rica the Bank of America formed a local entity which has applied to the Central Bank for operating authority. The aim of the new Costa Rican financial organization is to engage in private banking in accordance with the provisions of local banking laws. The First National City Bank of New York has also expressed its intention to operate in Costa Rica. Unquestionably, the First National City Bank will follow closely and with the greatest interest the pioneering efforts of the Bank of America in a country which, until very recently, gave little encouragement to foreign banking operations in its national territory.

The Banco Exterior de España and the Banco Exterior de Panama have opened a Central American office in Guatemala City to promote the commercial relations between the countries of Central America, Spain and Panama. Similar offices of the Banco Exterior de España are located in Argentina, Colombia, and the United States, Portugal and Mexico.

An Ecuadorian bank, Banco La Filantropica, is conducting an aggressive and imaginative marketing program which has resulted in a 65%

increase in deposits in one year and has led to its rise to third place among the country's banks. Sponsorship of floats in local celebrations, special passbooks for savings accounts opened on days of special significance to the depositors, automatic debiting of public utilities bills, door-to-door get-acquainted programs, mobile units to reach the interior of the country, scholarships for the underprivileged, and financing of small businesses were the principal tools used to overcome the natural resistance to savings. The experience of La Filantropica is not new in the United States, nor in other parts of the world. It is well established that the bank which markets aggressively and intelligently will get the customer.

SATELLITE COMMUNICATIONS

The first permanent earth station in Latin America for satellite communications was placed in operation in Chile in July, 1968. Thus, Chile is now able to transmit and receive television programs directly to and from other countries and to carry out international telephone, telegraph, and data communications via satellites. The Chilean station, located about seventy miles southwest of Santiago, has a radius of action which permits coverage of the Americas, Europe, the Middle East, and Africa. It was built in approximately twelve months by General Telephone and Electronics International for Chile's Empresa Nacional de Telecomunicaciones.

Chile initiated services in mid-summer, but Panama was close behind and inaugurated the first satellite station in the Central American area in September, 1968; Mexico was a close third, and its initiative permitted television transmission of the Olympic Games in October. Other South American countries scheduled to establish satellite earth stations in the near future are Argentina, Brazil, Peru and Colombia. In Central America, the subject of communication satellites is receiving intense consideration by the governments of the five republics.

The individual projects mentioned above constitute essential elements of a projected Inter-American Telecommunications Network aimed to link all the countries in the Americas via land communication systems and satellites. The proposed hemispheric network also contemplates linkage of the Americas with the rest of the world.

The majority of commercial satellite communications are under the aegis of the International Satellite Communications Consortium (INTELSAT) in which the United States has a majority interest and is represented by COMSAT. In Latin America the following countries are members of INTELSAT: Argentina, Brazil, Chile, Colombia, Mexico, Peru, Panama, and Venezuela.

A dramatic proposal was made by Russia at the first 1968 UN Conference on Exploitation and Peaceful Uses of Outer Space when it advanced the establishment of an international space communications network under the name of INTERSPUTNIK. Russia has refused to join INTELSAT, where voting is determined by investment, on the grounds that it would have but a small voice in an organization dominated by the United States, whose ownership in INTELSAT is 51%. Under INTERSPUTNIK, each participating nation would have one vote and some observers interpret the Soviet proposal as a move to change the voting procedures in INTELSAT. It is obvious that the cold war has been extended to another front.