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Latin American Economic Integration

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LATIN AMERICAN ECONOMIC INTEGRATION

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During the past few months, Latin American nations have taken a number of initiatives in the direction of intraregional integration. With much fanfare, the Andean Common Market (ANCOM) officially enacted its ambitious Sectoral Program for the Automotive Industry, calling for an investment program of $1.5 billion.[1] During this same period, plans were also announced for the creation of a Latin American Export Bank (BLADEX), whose main objective is encouragement of regional integration and development.[2]

These and other less publicized advances which attest to the continued viability of the concept of intraregional economic cooperation are tempered by some unsettling occurances. The disintegration of a key Caribbean Community (CARICOM) program for the construction of aluminum smelters by Trinidad-Tobago, Jamaica, and Guyana may threaten the future of that regional organization. Similarly, Chile's final withdrawal from all ties with ANCOM serves as a vivid reminder of the divisive forces that continue to hamper efforts toward regional economic integration.[3]

The apparent ability of ANCOM to weather the disruptive effects of the Chilean withdrawal, as evidenced by the ambitious strides taken in the development of a regional automotive program, suggests organizational strength that can withstand severe threats such as the partial erosion of its structural framework. On the other hand, the failure of an industrial project, a relatively smaller setback, poses a serious threat to CARICOM's integration efforts.

A casual observation focusing on the actions taken by each regional body will fail to yield a satisfactory explanation of the bases for such actions and their portents for the respective integration organizations. These regional bodies are the products of cooperation among sovereign states. The actions of each nation within the integration schemes are dictated in large part by internal economic and political conditions. This colors every aspect of organizational life, and must be understood in order to account for the success or failure of a particular economic integration body.

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1. Grupo Andino, October 1977, at 2.
2. Bus. Latin Am., August 17, 1977, at 262.
3. Grupo Andino, October 1977, at 2.

Each nation is faced with unique economic problems. These problems are transformed into demands as they are communicated through the political process to the governing body. The efficacy of these demands will vary given the importance of the particular economic sector concerned. The national government must satisfy these demands to insure its political survival. Thus, a nation's willingness to cooperate in a regional economic organization will depend upon the ability of the organization to aid that nation in resolving its economic problems.

Conversely, the organization will have its own set of priorities flowing from its role as the vehicle for adjusting the individual demands of its members. This function requires the regional organizations to extract concessions from each member. When such concessions conflict with internal demands, the potential for strain is evident.

The manifestation of strains will depend in part upon the relative importance of the particular member nations involved, in part on the nature of the problem posed, and finally on the complexity of the problem solving mechanisms.

The events of recent months can be viewed in light of this system of competing goals. This survey will focus on the impact of recent economic developments upon the various integration schemes. It will also review actions taken by Latin American countries, either unilaterally or in concert, that effect the dynamic process of economic integration.

THE CARIBBEAN COMMUNITY (CARICOM)

On September 9, 1977, the member states of CARICOM agreed to continue existing prices on commodities traded under the current Agricultural Marketing Protocol and Guaranteed Market Schemes.[4] At a recent ministerial meeting of the Standing Committee Responsible for Education, held on August 24, 1977, it was noted that satisfactory progress was being made in the Program of Regional Cooperation in Education. In particular, activities in adult education, the teaching of reading, the professional development of senior school administrators, and curriculum development were singled out for praise.[5]

CARICOM's Secretary General, Allister McIntryre, recently resigned his post so that he could take a high position in the United Nation's Conference On Trade and Development (UNCTAD). One observer has commented that Mr. McIntyre's resignation was due to his frustration over delays by CARICOM governments in implementing its regional programs.[6] In response, Mr. McIntryre maintained that his resignation was based solely

4. Caribbean Community Secretariat Press Release, No. 35/1977, September 9, 1977.
5. Caribbean Community Secretariat Press Release, No. 34/1977, August 24, 1977.
6. Bus. Latin Am., August 17, 1977, at 264.

on personal considerations.[7] Although admitting impatience with the pace of CARICOM's progress, the former Secretary General remains steadfastly optimistic about the organization's future as the only viable alternative for regional integration.[8]

However, CARICOM's organizational purpose has been frustrated by the recent withdrawal of Trinidad-Tobago from a major industrial project. The program, calling for the construction of two tripartite aluminum smelters by Trinidad-Tobago, Jamaica, and Guyana, was beset by an intraregional dispute over the allocation of economic responsibility.[9] Trinidad-Tobago expressed dissatisfaction with the quality of the contributions made by its partners, as well as suspicion about their ability to fulfill their financial obligations. Trinidad-Tobago had contributed all of the funds for the feasibility studies and related operation necessary for the inception of the project. Guyana and Jamaica were handicapped by huge balance of payments deficits, and the resulting slumping economies prevented them from making similar contributions. The expression of concern by Trinidad-Tobago prompted Guyana to pledge its support for the project on the condition that Trinidad-Tobago give its assurance that it would fully participate in the Guyanese phase.[10]

The breakdown of the aluminum smelting program indicates the manner in which a conflict between national interests and organizational priorities is often resolved. Success of the program was obviously in the best interests of CARICOM, both as a boost to its image as a healthy working mechanism and for the tangible economic benefits that would ensue. The participating nations initially perceived the CARICOM venture as a vehicle for the satisfaction of domestic economic demands for self-sufficiency in aluminum smelting. However, Trinidad-Tobago came to believe that it could no longer achieve a satisfactory resolution of its economic problems through organizational activity, thereby thwarting the success of the entire project.

Import policies have been another source of friction among CARICOM nations. Trinidad-Tobago has decided to curb imports from Jamaica and Guyana in retaliation against trade restrictions imposed by those nations. Though this action by Trinidad-Tobago is permitted by the CARICOM Treaty, it is feared that such a policy will cause adverse reactions by other CARICOM members, thus severely weakening an organization already beset by political and economic strife.[11]

7. Georgetown Chronicle, August 14, 1977, at 6.
8. *Id.*
9. Bus. Latin Am., August 17, 1977, at 264.
10. *Id.*
11. *Id.*

Thus, the spirit of cooperation evidenced by the initial involvement of the three countries in the aluminum smelting project was coextensive with their belief that domestic economic demands would be met through such cooperation. Accordingly, when domestic economic demands can be met through organizational cooperation, CARICOM members willingly participate in coordinated activity with their regional body. Despite the differences between Trinidad-Tobago and Guyana over the aluminum smelting program, it is believed that Trinidad-Tobago may be amenable to a grant of $50 million in trade concessions to Guyana.[12] This credit would be used to export rice and timber to Trinidad-Tobago.

THE LATIN AMERICAN FREE TRADE ASSOCIATION (LAFTA)

LAFTA members implemented a new complementation agreement to facilitate free trade.[13] The recent accord between Mexico and Argentina deals with tariffs on essential oils, chemical aromatic products, and fragrances and flavors to be used in the manufacture of cosmetics and toiletries.[14] Brazil, which had previously proposed a similar scheme, was invited to join the pact. Under the agreement, tariffs will be reduced to approximately one half of present rates. Argentine duties, which average 33 percent, will be slashed to 17 percent. The Mexican tariff of 12 percent will be cut to 5 percent for the products involved.

A number of preextisting complementation agreements have also been extended. At a recent meeting of LAFTA members in Montevideo, Complementation Agreement No. 15, covering pharmaceutical products, was expanded for the fifth time since its inception in 1971. A proposal for the incorporation of eighteen new items into the accord was enthusiastically adopted by the delegates. Among the items introduced are mercury biiodide, nicotonic acid, dexamestasone phosphate, kanamicine base, and kanamicine sulphate. Argentina, Brazil, and Mexico also proposed that tariffs on thirty substances already covered by the pact be lowered even further.[15]

In similar developments, the chemical sector recommended a one year extension of tariff concessions on products included in the three complementation agreements that originally granted concessions on a temporary basis (nos. 16, 20, & 21).[16] The delegation also urged that additional products be added to those included in existing agreements. Specifically,

12. *Id.*

13. In a complementation agreement, two or more member countries agree on preferential tariff treatment for a specific group of products.

14. Bus. Latin Am., October 12, 1977, at 325.

15. *Id.*

16. Bus. Latin Am., August 31, 1977, at 279.

signatories to the Petrochemical Agreement No. 16, which include Argentina, Brazil, Chile, Mexico, and Venezuela, proposed that twenty-one new items be incorporated into that accord with special tariff reductions for each. Delegates from Argentina, Brazil, Chile, Mexico, and Uruguay discussed the Surplus and Deficits Complementation Agreement for the Chemical Industry (no. 21). They recommended that a total of sixty-six concessions be extended to products already included in the list, but which have not been accorded special treatment. Finally, the parties to the Dyes and Pigments Agreement (no. 20), Argentina, Brazil, Chile, and Mexico, will consider the proposals of their delegates to withdraw twenty-six concessions and replace them with seventy-eight new ones.

Proposals for a complementation agreement covering tungsten-carbide and stainless steel balls used in ballpoint pens, mechanical pencils, assembled and non-assembled devices for mechanical pencils, nonmetallic points for markers, fountain-pen nibs, and nib points have been forwarded by private sector representatives from Argentina and Mexico.[17] Under the plan, these articles would be taxed at 8 percent of c.i.f. value when entering Argentina, and 9 percent of c.i.f. value when imported into Mexico.

Plans have been formulated for a possible complementation agreement in the textile sector, the first such agreement covering this particular group of products. The list of national concession candidates will be determined in consultation with the local chamber of commerce or business associations of each country involved in the agreement.[18]

In contrast to these strides, negotiations concerning a proposed complementation pact for the aluminum industry have stalled. The latest in a series of sectoral talks held in March (1978) saw a task force, comprising twenty delegates from Argentina, Brazil, Uruguay, and Venezuela, again fail to reach an agreement on the proposed accord. However, representatives agreed to recommend several national list concessions to their governments.[19]

Brazil recently adjusted its import regulations to exempt certain raw materials from its prior deposit scheme.[20] At the same time, it altered its trade regulations so as to allow the importation of up to $1,000 of machine replacement parts without a license. The 100 percent prior deposit requirement had been applied to goods covered by LAFTA negotiated concessions. In return for the exemption of LAFTA goods, participants in the recent sectoral meeting for dyes and pigments agreed to allow Brazil to impose a temporary 15 percent ad valorem duty on the extempted products. The duty

17. Bus. Latin Am., September 14, 1977, at 284.
18. Bus. Latin Am., August 17, 1977, at 263.
19. Bus. Latin Am., October 12, 1977, at 325.
20. Bus. Latin Am., August 24, 1977, at 271.

would revert to 2 percent ad valorem if Brazil fails to maintain its 100 percent prior deposit scheme against third country imports.

Brazil's apparent gesture of cooperation with its LAFTA partners is timed so as to extract maximum benefits, while minimizing disruptive effects that threaten to cripple its ability to meet domestic economic demands. The conciliatory action deflected foreign criticism which, if transformed into reciprocal sanctions, would have threatened the Brazilian economy. This tentative liberalization also came at a time when Brazil's trade performance indicated vast improvements. Through July, there was a $347 million surplus in foreign trade. This was reflected in a 36 percent gain in export revenues, a 46 percent rise in commodities, and a 24 percent increase in manufacturers over the first seven months of 1976.[21]

However, a change in any of these variables could have a negative impact on Brazil's future willingness to cooperate with LAFTA. The most important of these variables, the condition of the Brazilian economy, is also the one most likely to change.[22] High coffee prices, which led to Brazil's outstanding trade performance in the first half of 1977, will probably weaken as production recovers from the 1975 frost. Furthermore, the cost of servicing Brazil's debt, which now stands at $30 billion, is still rising.[23]

In a bilateral action with another LAFTA member, Brazil manifested a willingness to sacrifice a source of internal revenue in order to foster regional trade.[24] On April 18, Argentina and Brazil extended an agreement which prevents double taxation of income derived by international air and sea carriers organized in each country. The agreement would exempt the assets or gross receipts of such companies from all municipal and local taxes.[25]

As a means of increasing the foreign exchange income deemed necessary to continued integration, LAFTA has established a program designed to promote exports from member states.[26] Under this program, zonal banks (consisting of LAFTA member countries) will act in advisory capacities to export companies. Furthermore, they will seek extraregional funds to finance exports and will cooperate in the creation of a zonal institute of advanced bank studies.[27]

21. *Id.*

22. *Id.*

23. Indications are that the current economic slowdown will continue through next year. For a detailed review of Brazil's economic outlook, *see* Bus. Latin Am., November 16, 1977, at 362.

24. Novedades-Monthly Newsletter of Intern-American Tax Research Ltd., June 1977, at 44.

25. *Id.*

26. Comercio Exterior de Mexico, August 1977, at 314.

27. *Id.*

Bolivia, pursuant to a committment made through LAFTA, issued a list of Uruguayan products entitled to reduced import duties. The reductions apply to those products imported before March 18, 1980.[28]

THE CENTRAL AMERICAN COMMON MARKET (CACM)

The International Group for Agricultural Development in Latin America (IGAD/LA) recently released statistics concerning the post-harvest loss of basic grain production in Central America.[29] The IGAD/LA noted that Central America loses between 15-30 percent of its production of corn, beans, rice, and sorghum to attacks by rodents, insects, and mold. At 1975 prices, the loss is estimated at $100 million annually.[30] This is obviously a staggering blow to an economic sector of vital importance to CACM members.

The IGAD/LA proposed a two pronged attack to deal with the problem. First, national governments must develop a viable agricultural infrastructure, which would include programs in technical training, farm storage construction and credit, surveys, pest management, and drying. At the same time, the study recognized that Central American nations must look to sources of technical and financial assistance emanating from outside the region. A $20 million fund created this past spring by the United Nation's food and Agriculture Organization represents such a source of external assistance.[31]

CACM recommended actions of its own to strengthen the agricultural performance of its members. The proposed plan, entitled Regional Cooperation and Exchange of Agricultural Products In Central America, was developed in conjunction with the United States Agency For International Development (AID). The program contains plans which call for $5.8 million in preinvestment expenditures and a total outlay of $207.9 million for investment between 1977-82.[32] Production schedules will be set for four new crops believed to hold great promise as exports: african palm, cacao, rubber, and coconut.

A basic element of the plan is the encouragement of intraregional trade. Imports from third countries grew by 27 percent from 1964-74, while intraregional imports increased by only 7 percent during that same period. The short term goals include crop diversification in small holdings, stabilization of domestic grains, and education of growers in the area of fluctuation in supply and demand.

28. Novedades-Monthly Newsletter of Inter-American Tax Research Ltd., June 1977, at 45, *see* arts. 1, 2, Supreme Decree No. 14430, March 18, 1977.

29. IDB News, No. 7, September 1977, at Insert.

30. *Id.*

31. *Id.*

32. Bus. Latin Am., September 28, 1977, at 306.

Implementation of these proposals would be a positive step towards the development of the infrastructure deemed necessary for continued growth in the agricultural sector. However, the present draft of the plan falls short on specifics, leading one source to question the ability of CACM members to marshal the political willpower necessary for full implementation.[33] Inevitably, the success of the plan will depend upon each nation's perception of the economic benefits to be derived from cooperation with CACM, as influenced by their respective domestic economic and political conditions. Unfortunately, the attempts to increase agricultural productivity in the region come at a time when CACM members find themselves beset by political uncertainty and a gloomy economic outlook.

Internal political instability in Nicaragua, caused by the ill health of General Anastasio Somoza Debayle, President of Nicaragua, threatens to involve that country in a border dispute with Costa Rica.[34] The Sandanist Liberation Front has exacerbated the present internal crisis in Nicaragua by launching guerrilla attacks in the Costa Rican border area and in cities within Nicaragua. This led Nicaragua to accuse Costa Rica of harboring these leftist revolutionaries, and prompted at least one military clash between the two CACM members.

Figures from the second half of 1977 indicate a continued steady decline in coffee prices.[35] This is of particular concern to CACM nations who failed to take full advantage of the recent coffee boom through reinvestment of their profits. Further developments in this area will depend in part on the success of the price stabilization agreement between Columbia and Brazil.

Domestic political and economic problems have been accompanied by disquieting organizational behavior. A tariff proposal, which would adopt the Brussels Tariff Nomenclature (BTN) and adjust tariff levels according to a scheme based on a more sophisticated measurement of economic effects, has been temporarily shelved. Instead, CACM has agreed to renew the 1968 San Jose Protocol, which imposes a 30 percent import surcharge on many consumer items. The apparent inability to abandon the San Jose Protocol raises doubts as to CACM's committment to tariff reform.[36]

Nevertheless, trade among CACM members is continuing its steady growth. Such trade is now approaching $1 billion a year. According to one source, Central America remains attractive to relatively small international

33. *Id.*
34. Bus. Latin Am., November 2, 1977, at 350.
35. Latin America Special Report, August 1977, at 4.
36. *See* note 34 *supra*.

ventures, producing high returns on investment year after year with only a moderate degree of risk.[37]

ANDEAN PACT (ANCOM)

The withdrawal of Chile from the Andean Pact was finalized with its formal resignation from the financial arm of the Pact, the Andean Development Corporation (CAF).[38] The movement which resulted in Chile's action was believed to be spearheaded by Venezuela, the newest member of the organization.[39]

In an unrelated development, the CAF announced plans to grant financial aid for the establishment of binational industries on the borders of Colombia and Venezuela, Ecuador and Peru, and Peru and Bolivia.[40]

The month of September saw the official enactment of the Sectorial Program For The Automotive Industry, a program hailed as a major accomplishment in the process of Latin American integration.[41] The fifth and final version of the program places emphasis on co-assembly and co-production of vehicles and calls for $1.5 billion in investment over the next four years.[42]

The agreement incorporates a number of new concepts including the "assigned category" and the "basic model".[43] Each participating nation will be assigned a class of vehicle for whose production it will be responsible. The vehicles will be classified according to the number of cylinders and weight. Within each category, a nation must elect a basic model upon which it will concentrate its efforts. Similar assignments will be made for component parts.[44] The program also permits bilateral agreements which will enable each nation to participate in the production of most models. This aspect of the plan was an important factor in satisfying Peru, which had expressed concern over the allocation of production of small and medium size cars (of which it is the largest consumer). Under the plan, Peru may enter into a co-assembly arrangement with Bolivia and Colombia for medium-weight trucks in exchange for an allocation of two basic models in the category of small and medium size cars.[45] The continued success of the program will depend in part on the ability of its organizers to appease those countries that feel short-changed by the complex allocation process.

37. *Id.*, at 352.
38. Andean Group, October 1977, at 2.
39. Bus. Latin Am., August 31, 1977, at 277.
40. El Comercio, June 15, 1977, at 14.
41. Grupo Andino, October 1977, at 2.
42. Bus. Latin Am., October 12, 1977, at 327.
43. Grupo Andino, October 1977, at 8.
44. *Id.*, at 8.
45. Bus. Latin Am., September 7, 1977, at 286.

Included in the agreement are intraregional tariff reductions for components and finished vehicles. This will result in lower duties on goods traded between Colombia, Peru, and Venezuela from 1979-1983. The tariff scheme will culminate in 1983 with the introduction of duty-free trading among those three nations. Bolivia and Ecuador would have duty free access to these markets by 1981.[46]

The automotive program also sets standards covering the permissible level of the "local content" of vehicles and components given preferred treatment. The level has been set at 70 percent. This means that for a vehicle to receive preferred treatment, the percentage of the finished product constructed outside the Pact must not exceed 30 percent. Such a requirement will be a definite challenge to Pact nations in view of the fact that the present local content of vehicles is no more than 35 percent.[47]

Another of the controversial aspects of the accord is the Common Outer Tariff (COT). The COT will be a unified tariff charged to all parts and vehicles eminating from outside the subregion. The tariffs range between 40 percent to 50 percent for parts and components and 45 percent to 155 percent for chassis and finished vehicles. Colombia has protested that the levels are too high, while autoparts manufacturers in Venezuela have complained that the 55 percent tariff on parts is too low. The present tariff on auto parts in Venezuela is 80 percent.[48]

The COT is a mixed blessing for Bolivia and Ecuador. High tariffs are necessary to protect their exports to other Andean Pact nations. However, these two countries have no automotive industry at this time and the high tariffs may discourage interests wishing to establish manufacturing operations for fear the parts tariff might price vehicles produced in Bolivia and Ecuador out of the market.[49]

The inability of Latin American countries to provide sufficient amounts of fertilizer to satisfy the demands of the agricultural sector has led to an increasing reliance upon foreign sources. This has resulted in a drain on international reserves and has caused the IDB to encourage self-sufficiency in the fertilizer industry.[50] In 1975, IDB specialists visited the Andean subregion to assess the potential for improving the performance of this sector. The interest generated by the IDB activity has apparently spurred progress in ANCOM's fertilizer program. A successful ANCOM fertilizer seminar has culminated in a plan which, if approved, would increase output through the use of existing plants. Rather than allocating the

46. Bus. Latin Am., October 12, 1977, at 327.
47. *Id.*
48. *Id.*
49. *Id.*
50. IDB News, September 1977, at 3.

production of fertilizer on a country by country basis, production would be boosted through the lowering of existing tariffs. Concomitant with this action, pressure will be exerted on fertilizer factories to raise production levels to capacity, to produce fertilizer suitable for crops grown in the region, and to upgrade the bloc's transportation system.[51]

This approach to the problems of lagging production in an important industry reflects a philosophy different from that evident in the automotive industry. The fertilizer sector has chosen the route of tariff reductions as the vehicle to increase productivity. This contrasts with the method of allocating production in the capital and labor intensive industry involved in the Sectorial Program For The Automotive Industry. The latter scheme is far more complex; it contains more limitations upon action and requires more concessions. At the same time, it provides the prospect for a political and economic windfall.

Increasing complexity in integration schemes adds to the difficulty of assessing the relative costs and benefits of participation. Each nation must make a complex cost-benefit analysis of its peculiar situation before deciding to embark on such an integration project. The success of the plan requires that the independent analysis of every country yield the same result — a decision to participate in the integration scheme. Dr. Enrique Iglesias, Executive Secretary of the United Nation's Economic Commission for Latin America (ECLA), has noted that:

> ". . . (as) long as integration schemes become more complex, governments find it increasingly difficult to evaluate the cost of their decisions and they may restrain or block the evolution of the process."[52]

OTHER DEVELOPMENTS

Although the four major regional organizations are the most visible manifestations of the economic integration movement, unilateral and multilateral actions occuring outside the context of these organizations exert a significant influence on that movement.

Plans were announced for the establishment early in 1978 of a Latin American Export Bank (BLADEX). The bank's main objectives will be to encourage intraregional trade and promote nontraditional Latin American exports by extending short and medium term credit. Short term credit will be provided by rediscounting bank acceptances for up to one year. Medium-term credit will be extended for capital goods and industrial machinery. The bank hopes to begin operations with a fund of $100 million.[53]

51. *Id.*, at 3.
52. Latin Am. Free Trade Ass'n Newsletter, November-December, 1976, at 7.
53. Bus. Latin Am., August 17, at 262.

Construction has begun on the massive Itaipu hydroelectric complex on the Parana River, the product of a joint venture between Brazil and Paraguay.[54] The project is expected to earn $100 million in revenue when completed. Paraguay is planning a similar hydroelectric plant on the Parana River at Corpus, to be built in conjunction with Argentina.[55] The geographical proximity of these projects has led Argentina to express its concern that the huge Itaipu plant would effect the water level of the Parana River to the detriment of the Corpus project.[56] Brazil has sought to assuage these fears by offering its assistance in efforts to improve the technical and economic conditions at the Corpus plant.[57]

In Brasilia, Ambassador Juan de la Piedra, Subsecretary for Economics of the Peruvian Embassy, confirmed that Brazil might participate in the development of the Peruvian nuclear program.[58] The Ambassor also discussed a number of other cooperative ventures being considered. Among these projects are the construction of a storage depot for Peruvian minerals in Saõ Paolo, a binational company to prospect for Peruvian copper, and the bilateral exploration of possible Peruvian oil reserves.[59]

These examples of extraorganizational cooperation are indicative of a new trend towards what has been labelled the "intraregional joint venture."[60] The IDB estimates that there are in excess of 170 of these ventures described as "a marriage of public or private capital of at least two Latin American nations."[61] Seventy-five percent of these ventures are in the manufacturing sector and 66 percent are owned by private Latin American capital.[62]

According to George McRobbie, Executive Director of the Intermediate Technology Development Group, intraregional technical cooperation of this nature is an improvement over traditional bilateral arrangements whereby developed countries affected wholesale transfers of technology to less developed nations.[63] Such a procedure was inefficient due to the inability of the less developed state to adapt the technologies to its social and economic needs. Collaborative efforts between nations which are

54. *Id.*, at 257.
55. O Estado São Paulo, August 21, 1977, at 28.
56. *Id.*
57. *Id.*
58. O Globo, July 13, 1977, at 3.
59. *Id.*
60. Bus. Latin Am., August 31, 1977, at 273. *See* Bus. Latin Am., November 30, 1977, at 383.
61. *Id.*
62. *Id.*
63. IDB News, May 1977, at 6.

in the same developmental stage is often a more appropriate response to common problems.[64] The joint venture has the advantage of enabling Latin American countries to exploit markets heavily protected by trade barriers, while increasing both marketing know-how and the financial base of the undertaking.[65]

These joint ventures are not immune from the potential for conflict inherent in the larger organizational endeavors. The dispute between Brazil and Argentina over the Itaipu and Corpus power plant projects illustrates the manner in which a joint venture may adversely affect third countries. The source of concern for Argentina in this instance is environmental in nature. However, it is not difficult to imagine a situation in which the economic ramifications of such exclusive cooperation between two countries are disadvantageous to a third party within the region. If a joint venture achieves its purpose of improving the positions of the participating parties in relation to a certain economic goal, other nations within the region will be placed at a competitive disadvantage. Thus, the very success of a joint venture may be dysfunctional for Latin American economic integration goals as a whole.[66]

Brazil and Colombia, countries which account for 50 percent of the world's annual coffee production, agreed to coordinate their marketing of coffee in a bid to bolster world prices.[67] The acccord, entitled the Manaus Agreement, is expected to strengthen coffee prices by eliminating the competition which marked their previous sales policies. According to one source, the agreement seems to assure other producing nations that their prices will not be undercut in the world export market.[68] This action by two such influential producers may avert the softening of prices expected as a result of recent surpluses in both countries.[69]

The River Plate Basin will be the beneficiary of a special fund established to aid the process of physical integration in the area. The participating members will be Argentina, Bolivia, Uruguay, Paraguay and Brazil.[70] The authorized capital is $100 million, with $20 million to be contributed initially. One of the first proposed projects is a railway link between eastern and western Bolivia. This would constitute the final stage of an Atlantic-Pacific railroad in South America. Another proposal would

64. *Id.*

65. Bus. Latin Am., August 31, 1977, at 273.

66. However, improved ecomonic conditions for the countries participating in the venture may accrue to the benefit of the entire region by providing more economically sound trading partners.

67. The Wall St. Journal, November 7, 1977, at 17.

68. *Id.*

69. Latin America Special Report, August 1977, at 4; *see also* Finance and Development, No. 3, September 1977, pp. 28-31.

70. Bus. Latin Am., September, 1977, at 311.

allocate funds for construction of a natural gas pipeline in Uruguay which would be connected to an existing pipeline between Argentina and Peru.[71]

The success of recent negotiations for the opening of a branch of the Bank of Brazil in Caracas, Venezuela is indicative of a warming trend in economic and political relations between these two South American powers.[72] According to sources in Brazil, the development is considered vital to the Brazilian goal of expanded economic activity in Venezuela.[73]

The implementation of policies by individual nations aimed at maximizing the success of domestic industries while curbing inflation, has led several nations to take unilateral actions which will affect the quality of their commitment to the free trade objectives of the various regional organizations.

Debate in Colombia over inflation brought the issue of import controls to the forefront. Colombia has enjoyed a large trade surplus due in part to the high level of coffee exports.[74] Former Finance Minister Rodrigo Botero has publicly advocated the elimination of license requirements on many imports and a general decrease in tariffs. Mr. Botero believes that such actions would result in lower prices within Colombia by exposing local business to some healthy competition from abroad.[75] However, the present Finance Minister, Abdon Espinosa Valderrama has dismissed his predecessor's proposals, arguing that such policies have failed to control inflation in the past. Mr. Valderrama remains committed to the maintenance of present controls.[76]

On the other hand, the Mexican government has chosen to pursue a middle course between the protectionist stance of Mr. Valderrama and the free trade policy of Mr. Botero. By promulgating new rules governing the acquisition of import and export permits, Mexico intends eventually to substitute an import tariff scheme for present license controls. Article Seven of the revision would require action on licensing applications within fifteen days of submission of the request, instead of the customary thirty to forty-five day delay. Under article Seventeen, an importer may acquire a global permit covering one year's import license requirements. Such a permit would obviate the need for periodic license renewal.[77] The immediate effect of these reforms will be to facilitate the process by which importers and exporters obtain necessary licenses. Proponents of the new rules argue that

71. *Id.*
72. O Estado de São Paulo, July 3, 1977, at 33.
73. *Id.*
74. Latin American Special Report, *supra* note 69, at 8, 9.
75. *Id.*, at 8.
76. *Id.*, at 9.
77. Bus. Latin Am., October 19, 1977, at 331.

this first step in the direction of a license-free trade policy will increase efficiency by introducing foreign competition into the domestic market while at the same time, keeping check on inflation. It is important to note, however, that since the granting of licenses remains in the Secretariat of Commerce, the gains in trade liberalization may be reversed by governmental fiat.[78]

Argentina recently embarked on a campaign to place its automobile industry on a competitive footing with its foreign competitors. Acting on the assumption that competition from abroad will reduce prices to consumers and increase exports, the government is considering the possibility of easing restrictions upon imports of finished vehicles. Such action would end a twenty year policy of heavy tariff protection. Anticipating resistance from its automotive industry, the Argentine government has offered local manufacturers freedom from price controls. Such a concession would be contingent upon the end of the present protectionist policy. Auto manufacturers are vehemently opposed to the liberalization of tariffs and have labeled the government's proposal as "blackmail."[79]

Observers have focused upon the government's treatment of tariffs in the auto industry as a barometer of trade policies concerning other sectors of the economy. The lowering of tariffs for so influential an industry may therefore be the harbinger of similar cuts in other areas. Conversely, if the government succumbs to the pressures generated by its auto manufacturers, the cause of protectionism would be advanced at the expense of free trade.[80]

GENERAL OUTLOOK

While the prospects for future economic integration in Latin America are mixed, the general outlook for the region is relatively favorable. The average growth in real Gross Domestic Product (GDP) is expected to be in excess of 5 percent for most Latin American nations.[81] A notable exception to this rapid growth is Mexico, where the predicted rate of growth in GDP is only 1 percent. Mexico has been plagued by the ever-present problem of inflation which also afflicts Venezuela (whose inflation rate will likely surpass 1975's record high of 10.2 percent) and Paraguay (where inflation is expected to double).[82] Leading all Latin American nations is Argentina where the cost of living rose an estimated 97 percent during the first nine months of

78. *Id.*, at 334, 335.

79. *Id.*, at 335.

80. *Id.*

81. Bus. Latin Am., October 5, 1977, at 36; October 19, 1977, at 332; October 26, 1977, at 340; September 7, 1977, at 284; September 14, 1977, at 292; August 17, 1977, at 260; Colombia Today, vol. 2, November 7, 1977; Bus. Latin Am., November 16, 1977, at 364.

82. Bus. Latin Am., October 28, 1977, at 308.

1977.[83] However, a number of nations have exhibited an ability to cope successfully with this vexatious problem. In Chile, where the rate of inflation had been an incredible 107 percent in 1976, the increase in prices was held to 38.8 percent. Nicaragua, Bolivia, Honduras, and Costa Rica have managed to successfully curtail inflation.[84]

Rising foreign indebtedness, coupled with the questionable ability of Latin American nations to meet debt service payments, has not stopped the flow of credit from international banks.[85] An excess liquidity resulting from slack demand in the industrialized world has provided Latin American countries with a fertile source of credit. Given such market conditions, lenders are free to consider intangibles such as political strength and unity as well as the quality of economic administration.[86] In this respect, success in the integration process may cause lenders to be favorably disposed to the granting of development loans.

Finally, an area of crucial concern which supersedes territorial boundaries is the task of developing sufficient energy resources to sustain economic growth. The Secretary General of the Organization of American States (OAS), Alejandro Orfila, has estimated that two-thirds of the nations in the region suffer from substantial deficits in their energy supplies.[87] The OAS and the IDB have been the primary organs fostering regional cooperation on this issue. However, progress in the area of energy conservation and development will face serious obstacles. The energy resources and requirements of each Latin American nation are quite diverse, making a unified attack upon the problem difficult. Further, much of the energy consumed in Latin America goes to industrial production.[88] Thus, any material reduction in energy consumption may adversely affect the pace of economic development. The choice between conservation and economic development will be especially significant for the less developed nations in Latin America. In this respect, the energy problem exemplifies the challenge facing Latin American countries in their efforts to integrate. Success in meeting this challenge will ultimately depend upon the ability of Latin American nations to satisfy individual needs within the context of unified group action.

83. The Times of the Americas, November 23, 1977, at 7, col. 3.

84. Comercio Exterior de México, August 1977, at 289; Bus. Latin Am., October 5, 1977, at 316. For an account of Brazil's efforts in this regard, *see* Bus. Latin Am., November 23, 1977, 370.

85. Bus. Latin Am., September 14, 1977, 293. *See* The Times of the Americas, November 23, 1977, at 7, col. 3; Bus. Latin Am., November 23, 1977, 369.

86. IDB News, April 1977, at 3.

87. Americas, October 1977, at 7.

88. *Id., see also* IDB News, March 4, 1977, at 3.