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LATIN AMERICAN ECONOMIC INTEGRATION

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ANDEAN COMMON MARKET (ANCOM)

Developments in the Wake of the Chilean Action

The Andean Common Market (ANCOM) has spent the past months recuperating from Chile's withdrawal from the Group in October 1976. (*9 Law. Am.* 179, 1977). It should be noted, however, that irrespective of the withdrawal, Chile has agreed to comply with four of ANCOM's Decisions: Numbers 40, 46, 56 and 94. These decisions deal with double taxation within the Andean Group, Andean multinational corporations, international highways, and telecommunication systems, respectively.

Action taken by ANCOM shortly after Chile's withdrawal amounted to little more than delaying much needed industrial integration programs. The remaining members of ANCOM signed a new protocol postponing the target date of such programs for three years. These programs include shipyard building, steelmaking, basic chemicals, paper, glass, fertilizers and electronic goods. ANCOM also agreed to permit Venezuela an additional three years in which to adapt its metalworking industry to the Group's program.

ANCOM set December 31, 1978 as the deadline for the approval of the common external tariff. The tariff will fix the maximum and minimum levels of protection for local industries.

The Andean Commission, the supreme organ of ANCOM, had softened some of the harsher aspects of its foreign investment code in Decision 24 in November 1976. The latest changes are embodied in Decision 109. Accordingly, foreign companies may now invest in agriculture and livestock-raising in Bolivia without being subject to the fade out requirements. (The requirements form part of a plan under Decision 24

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to reduce foreign ownership incrementally.) Previously, only tourism and mineral, hydrocarbon, and forest exploration in each of the countries were exempt from the fade out requirement.

Furthermore, under Decision 109 ANCOM members may now exempt individual foreign citizens from the requirement that they relinquish their rights to remit dividends on locally generated investments and to repatriate their capital.

The Commission has also decided to clarify the status of investments made by "mixed companies" (those with at least 51% local ownership). At present, it is unclear whether the portion of a venture held by them would be treated as "Andean" or not for purposes of national ownership.

The Commission revealed in its meeting the extent to which the postponement of ANCOM's free trade deadline has increased interest in the Latin American Free Trade Association (LAFTA) as a means to expand markets. It agreed to allow Colombia and Venezuela to join the LAFTA petrochemical agreement (no. 16), though it did not approve concessions to LAFTA on isopropyl alcohol and methylethylketone, which are included in ANCOM programs.

Sectorial Program Developments

Sectorial programs are an integral element of economic integration and add to the attraction of badly needed investment in the Andean Group. Unfortunately, Chile's departure from ANCOM forced its members to revise the tentatively approved sectorial development program for the automotive sector. The new proposal provides that each country choose one of its presently produced vehicles to be a "basic model" which could be varied in body style. The effect of the proposal would be that current models not selected could not enjoy ANCOM tariff benefits when exported to other Andean countries. To date the scheme has met opposition from both the Colombian government and the Venezuelan private sector. It is likely that other member countries will raise additional complaints.

Other sectorial programs which ANCOM has approved have not fared any better. Most recently, the petrochemical sectorial program has run into problems due to a conflict between Bolivia and Colombia.

Under ANCOM's program, pesticide production would be allocated on a shared basis among all ANCOM members. In a previous LAFTA

agreement (LAFTA Complementation Agreement No. 6), signed by Colombia, Bolivia, Chile and Peru, the manufacture of pesticides was allocated to Bolivia and Colombia. The former, however, was given exclusive rights to produce pesticides for duty export to other participating members. It now seems likely that Bolivia, rather than share production with all ANCOM countries as dictated in the Agreement, will insist upon members respecting the monopoly granted it by the LAFTA agreement.

Colombia, the largest agricultural producer in ANCOM, needs a constant supply of inexpensive pesticides. Bolivia claims that it is capable of producing at world prices and that it could export 90 percent of its production output. Colombia, contrarily, holds that Bolivian production costs will run an estimated 45-50 percent above international market prices. Therefore it has proposed that the ANCOM common external tariff be reduced as an impetus to the procurement of pesticides from foreign sources.

Unfortunately, in the more than six years since products were set aside for sectorial programming, the two programs approved by ANCOM (metalworking and petrochemicals) and the third program upon which partial agreement was reached, have been the source of serious conflict.

The Dresser Incident

The dangers presented by an inability to implement workable sectorial programs were again highlighted by the recent Dresser experience in Bolivia. Cia Andina de Tricones (CATSA), a Bolivian joint venture of the U.S. Dresser Industries and local investors shut down production operations in February 1977, after failing to penetrate the Andean market. CATSA has estimated that 60% of the investment will be lost if the plant is shut down permanently. Dresser had been operating in Bolivia for more than two years.

Dresser established CATSA in 1974 to produce tricone drill bits for the petroleum industry. The 1972 sectorial development program for the metalworking industry gave ANCOM nations duty-free access to drill bits produced in Bolivia. Contrary to hopes and designs based upon the ANCOM program, CATSA was unable to export a single drill bit to the Andean market.

While its operations were based on being able to export the bulk of its capacity production to the Andean market, CATSA's actual sales were confined to the locally and state owned petroleum company.

Though the reasons why CATSA was unable to penetrate the Andean market are varied, the situation clearly illustrates the dangers which future investors will undoubtedly consider. First, although ANCOM imposed a 55% common external tariff on third country imports, some ANCOM countries had previously granted LAFTA tariff concessions (which take precedence over the ANCOM tariffs). This allowed larger and more established producers (e.g. Brazil and Argentina) to export to Andean countries without paying the 55% duty, and thereby to sell goods more cheaply than CATSA could.

Second, Bolivia alleges that Colombia and Ecuador created a series of obstacles to avoid applying the common external tariff. Furthermore, Bolivia argues that ANCOM members failed to honor the spirit of the program under which the members were not required to prevent, but merely to refrain from, encouraging new investment in local industry. Hence, a competing producer was allowed to set up in Peru after installation of CATSA. Last, Chile's withdrawal from the Group has substantially contributed to Bolivia's woes by precluding the latter from a potentially lucrative market.

These dangers will continue until ANCOM and LAFTA manage to coordinate their programs. ANCOM must also establish programs realistically capable of implementation with enforceable dates of commencement.

Assistance for Bolivia

The Andean Commission met again in February 1977, seeking to reach a settlement of Bolivia's grievances. Aside from the Dresser experience, Bolivia complained that, generally, its benefits from ANCOM, were to few.

The ANCOM Junta proposed to aid Bolivia in taking advantage of its less-developed nation status within the Group. Most of the points of the scheme, however, appeared to be too broad and without force. For example, the proposal called for the Junta to identify those industrial opportunities best suited to Bolivia which would result in the production of goods competitive with those from other Andean nations. In addition, it provides for the promotion of Bolivian exports and the training of Bolivian personnel.

The major thrust of the plan is to ask ANCOM members to move plants that manufacture items assigned to Bolivia to the latter state. The

countries which would suffer the effects of this move are Peru, Venezuela and Colombia. The proposal, however, is not mandatory and adherence to its commands is, at best, uncertain.

Other Decisions

The Commission, at its meeting, also approved Decisions 112, 113, and 116. The first of these favors both Bolivia and Ecuador. It suspends the automatic tariff-cutting timetable on certain products exported by other member countries that already enter duty-free when exported by Bolivia and Ecuador. Consequently, it will maintain the margin of preference for these countries' exports. The products which are involved include: tin, rubber and rubber goods, bacon, cheese, baby foods, sauces, starch and canned tropical fruit. Decision 112 becomes effective upon the unanimous ratification of the Lima Protocol (presently signed only by Peru and Ecuador).

Decision 113 extends social security benefits to migrant workers (subject to each country's approval), while Decision 116 regulates the migrant workers. The latter decision provides that Andean workers are to receive preference over other foreigners in hiring as scheduled in the regulation. The Decision attempts to resolve the problem caused by large numbers of Colombians travelling into Venezuela to work.

In addition the Commission declared that there is a need for increased cooperation with LAFTA nations, particularly Argentina, Brazil and Mexico. It examined the feasibility of eliminating tariff advantages that LAFTA has over ANCOM. As evidenced by the Dresser situation, ANCOM suffers seriously from its inability to protect local producers from competition with LAFTA negotiated products.

CARIBBEAN COMMUNITY (CARICOM)

Several of the Standing Committees and Working Committees of Ministers of the Caribbean Community met in Guyana during the end of 1976 and the beginning of 1977 to initiate studies on further Community development, as well as to follow through on current programs. The Committee meetings included the Standing Committee of Ministers Responsible for Agriculture and the Standing Committee of Ministers Responsible for Transportation in November, and the Working Part of Officials on Co-operation in Telecommunication in October.

The Standing Committee of Ministers Responsible for Agriculture undertook a comprehensive review of the Regional Food Plan, particularly the Livestock Complex, the Fisheries Project, and the Corn/Soya Program. After receiving reports, the Committee approved a number of regional projects and initiated further studies in these areas. Approval was given for both the 1977 Work Program and the Budget of the Caribbean Agricultural Research and Development Institution. A Programme of Research for that institute was endorsed. The Committee lauded and endorsed the continuing efforts of the Caribbean Community Secretariat and the Caribbean Development Bank to secure financial and technical assistance for the project identified under the Regional Food Plan.

The Standing Committee of Ministers responsible for Transportation discussed maritime matters such as small vessel shipping, shipping statistics, maritime legislation, safety and training, and development relating to extra-regional shipping. The Committee also examined the operation of the West Indies Shipping Corporation and approved its budget. Agreement was reached on terms for Belize's admission to the West Indies Shipping Corporation, and it was decided that further discussion would be held with St. Vincent regarding the possibility of that government acceding to the corporation. In an attempt to promote expansion of regional integration, the Committee arranged for further technical work on the coordination of air transport including the authorization of a study of the feasibility of a Regional Airworthiness Authority.

The Working Party of Officials on Co-operation in Telecommunications met for the first time since it was established by the Conference of heads of Government meeting in December 1975 at Basseterre, St. Kitts. The Working Party considered potential co-operation within the Caribbean Community in such fields as training, radio regulation, broadcasting and television, common equipment standards, prospects for manufacture legislation and a Common-Service Unit for the East Caribbean Common Market.

Another meeting important to the Caribbean Common Market took place at the CARICOM headquarters in January 1977. The Working Party on Commodities met to consider the problem of three major Caribbean exports, sugar, rum and bananas, on the world market. The discussion on sugar dealt with the draft International Sugar Agreement and the preparation of the CARICOM negotiating Brief, developments in the United States' Sugar Market, and the European Economic Committee's 1977-78 price proposal. Intra-regional trade in sugar was also discussed. The

status of the implementation of Protocol No. 6 (bananas) and Protocol No. 7 (rum) between the European Economic Community and CARICOM under the Lome Convention was received, and a program of work for the rest of 1977 in matters relating to the Lome Convention was considered.

A one-week Seminar on the Generalized System of Preference (GSP) for the benefit of the Commonwealth Countries of the Caribbean was held on the first of November 1976 at the CARICOM Secretariat headquarters. The seminar was organized by the Commonwealth Fund for Technical Cooperation (CFTC) of the Commonwealth Secretariat in conjunction with the United Nations Conference on Trade and Development (UNTAD) and the CARICOM Secretariat. Its purpose was to facilitate discussion by senior-level government officials and senior-level executives from private sector organizations concerning the operation of the GSP in their respective countries. It is hoped that the discussion will identify and resolve specific difficulties, impart detailed and timely information on the different schemes of preference and the technical aspect of their operation, and study the technical arrangements between preference-receiving and preference-giving countries to ensure the continued smooth functioning of the system.

CENTRAL AMERICAN COMMON MARKET (CACM)

A Portrait of Dynamics

The economies of Central American nations represent a current trend towards economic diversification and expansion built upon an increasingly favorable balance of trade and upon prudent planning. Revenues from commodity exports, particularly coffee, have surpassed projected levels giving CACM countries an opportunity to expand budgets and to reform the present tariff system, both of which will be handsome attractions to foreign investment.

The coffee market has unexpectedly produced windfall profits throughout Latin America and it is possible that this situation will continue at least another full year. Coffee exports from Guatemala amounted to 10% of its gross domestic product (GDP), while revenues from El Salvador, Honduras and Nicaragua amount to 25%, 10% and 5% of the GDP, respectively. The increased revenues have permitted some countries to reduce budget allocations for foreign loans and, in one instance, have resulted in the removal of a proposed gasoline surtax.

Concern that increased commodity revenues will result in undue and unwise reliance on their continuation by economic planners has been allayed through the strengthening of non-traditional exports and the development of energy source alternatives to petroleum. CACM countries aim to hold oil import volume (which cost 400 million dollars in 1976) to a constant level, while simultaneously exploring domestic oil reserves. In addition, the allocation of substantial resources towards the development of social service projects has been made possible by expanded 1977 budgets.

Progress in Tariff Reform

Although rejuvenation of Central American economic integration has not progressed as hoped, major reforms in the present tariff system have been seriously proposed by CACM officials in an attempt to attract foreign trade and investment. It is hoped that the restructuring of tariff rates and categories will aid in alleviating balance of payment problems, despite rebuttable contentions that a concomitant decline in revenue collections will result.

A major obstacle to the proposal will probably come from those industries presently enjoying heavy protection. CACM hopes that negotiations with private industries will be instrumental in obtaining the latter's approval and cooperation.

The target date for implementation of the proposed reforms is January 1978, the date of the expiration of the San Jose Protocol. Officials indicate that a more realistic estimate would be several months beyond that date, which would probably result in an extension of the present Protocol.

LATIN AMERICAN FREE TRADE ASSOCIATION (LAFTA)

At the LAFTA Annual Conference of Contracting Parties in November 1976 little progress was made, except for the reaffirmation of numerous temporary tariff concessions and the approval of several new ones. The most significant concessions concerned petrochemicals (Decision No. 16), photographic equipment (Decision No. 18), and dyes and pigments (Decision No. 21). A number of non-extensive concessions were granted by the larger member countries and will benefit LAFTA's less developed members—Bolivia, Ecuador, Paraguay and Uruguay. The Conference

avoided the basic issue of institutional reform and failed to take steps on important new tariff-cutting measures proposed earlier in 1976 by the private sector.

A significant reason for the lack of progress towards basic reform has been the Chilean action previously mentioned. Contrary to earlier predictions by analysts, the withdrawal has created more problems than had been anticipated. It was the primary reason for the failure to call a meeting of the Council of Foreign Ministers, the supreme body of LAFTA, in 1976. Absent such a meeting, the Annual Conference was left without a set agenda or even guidelines as to its status (the Council supplanted the Conference as the highest organ of LAFTA in 1975). Consequently, significant progress within LAFTA will probably be delayed until member governments reach an understanding as to which course of action they will pursue in these matters.

BILATERAL AGREEMENTS

In February 1977, Brazil and Argentina signed a "memorandum of understanding" that could facilitate trade between the two countries. The actual effective force of the "understanding" is as yet unclear, but the memorandum appears, at the very least, to be a goodwill gesture from both countries.

The "memorandum" deals with such barriers to cross-border trade as overcrowded ports, excessive red tape, and inconsistent freight charges. Moreover, the memorandum includes agreements to speed up import licensing procedures so that licenses will be granted within 15 days. Import permits will be more easily obtainable because the two countries agreed not to enlarge their already existing prohibited import lists. Furthermore, financing of trade operations in both countries will be facilitated as the memorandum establishes reciprocal lines of credit for financing such operations.

Rather than providing a definite solution, the memorandum agrees only to discussion of the major complaint of both countries: the difference between tariff levels under LAFTA concessions and third-country import tariffs (margin of preference). The memorandum fails to guarantee that a fixed equitable margin of preference will finally be determined. The memorandum does, however, show promise that fewer imports will cut into Argentine-Brazilian trade by calling for a monitoring system to check up on imports, under tariff concessions from other LAFTA mem-

bers, that do not legitimately meet LAFTA's origin requirements. Whether this monitoring system can or will be effectively set up remains to be seen.

There are three major flaws in the "memorandum" as a means of increasing trade between the two countries. First, it fails to deal with tariff reductions that would help promote trade between the two countries. Second, it leaves Brazil's major tariff barrier, the 100 percent prior deposit on imports, intact. And third, the memorandum is unclear on whether capital goods imports from Argentina, which are also manufactured in Brazil, will be allowed.

Nevertheless, both countries are hoping the "understanding" will boost the trade between them from the \$600 million in 1976 to \$1 billion by 1977. In light of the limited scope and unclear force of the agreement, the anticipated figure appears high.

Having withdrawn from the Andean Common Market (ANCOM), Chile has been actively implementing policies aimed at lowering production costs, and increasing the amount of competitive Chilean exports on international markets. To this end, Chile has progressed, both domestically with its tariff-reduction raw materials, and internationally with its bilateral trade agreements with its neighbors.

A recent move by Chile, under its tariff-reduction policy was a reduction of duties on raw material imports by 10-15 percentage points. In addition, duties on capital imports not produced locally (certain textiles, metal products, chemicals) were lowered. Tariffs on capital goods, including machinery, were similarly reduced.

Overall, the tariff levels for some 2,000 items have been reduced under the tariff-reduction policy. These items consist mainly of raw materials and capital goods essential to Chile's growing industrial sector. Of these tariffs, over three fourths have been reduced to the Chilean government's target maximum of 35 percent effective charge. The general tariff levels today stand at 24.4 percent as opposed to 94 percent in 1973. These reductions should significantly cut production costs of both local and foreign enterprises, thereby encouraging new investment which might well have gone to the remaining ANCOM member nations.

In addition, Chile has taken major steps to increase its bilateral trade flows with its neighboring nations. President Lt. Gen. Jorge Videla, of Argentina, finalized agreements between his country and Chile on his

visit to Chile in mid-November. Though covering a broad spectrum of subjects, the accord gives priority to improving working relations between the two countries—a prerequisite to smoother bilateral trade flows.

One of the major agreements calls for the carving out of new tunnels through the Andes region. Under two separate agreements, the countries decided to increase Argentina's existing credit line for Chilean importers to \$210 million, as well as to increase the reciprocal credits granted by the respective Central Banks.

Of the remaining pacts which were signed, agreements encompassing the avoidance of double taxation, the interchange of automotive parts, and the promise to study the boosting of Chilean sales to Argentina of natural gas, iron ore and thermal coal were concluded. The agreements also encompassed trade in agricultural products, with Chile committed to purchasing a minimum of 500,000 tons per annum of wheat from Argentina in 1977-79. With these agreements, the necessary financial foundation to encourage Chilean-Argentine commerce was significantly strengthened.

Finally, Chile is making an effort to strengthen its bilateral ties with its neighbor and troubled ANCOM member, Bolivia. Chile has offered to provide Bolivia with an outlet to the Pacific, a long time desire of Bolivia.

GENERAL ECONOMIC OUTLOOK

The Latin American market is clearly dominated by LAFTA member nations, their market share reaching nearly 90 percent. The Andean Bloc within LAFTA comprises about 21 percent of the Latin American market while CACM and the Caribbean Community make up 3 percent and 8.5 percent respectively. The CACM nations' rate of market growth was 52 percent, higher than any of the other regions. The commodity boom discussed earlier may well explain CACM's prominence in the current market structure.

While revenues have generally increased among Latin American nations, the size of the debt accumulation of most countries has raised serious concern over each nation's ability to repay its obligations as they mature. Two nations in particular, Mexico and Brazil, have enormous public debt accumulations which have risen 100 percent and 42 percent

respectively. Balance of payments statistics for a number of countries are improving, which offers hope for a diminution in their reliance upon foreign loans.

The reduction of the utilization of the Eurodollar market during the past year has seen a concomitant increase in loans from private banks, particularly those in the United States. Latin America, by far, has borrowed more funds from the U.S. than any other region of underdeveloped nations. However, there is a possibility that the accessibility to U.S. lending will be curtailed somewhat. Recently, the Federal Reserve Board of Governors hinted that U.S. banks had overextended themselves in making international loans. While private banking institutions and some U.S. officials indicate that there is no real worry, leading banks will probably become more cautious in their loans to third world countries.

In any case, cautious management and austerity measures should preclude serious repayment problems and maintain the area's favorable credit rating.

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