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Latin American Economic Integration

GEORGE LOTT*

During the past few months, Latin American countries have taken a number of initiatives in an effort to crystalize their frequently expressed desire for regional economic integration. Within the Andean Common Market (ANCOM), the Cartegena Agreement Commission approved the Arequipa Protocol, giving the group more time in which to meet its objectives. An Andean Reserve Fund was set up to help ANCOM member countries with any balance-of-payments problems they might have. Latin America's newest integration group, the Amazon Pact, came into being with the signing of the Tratado de Cooperación Amazónica. But, while these and other less publicized advances attest to the continued viability of the concept of regional economic cooperation within the Andean Common Market, the process of economic integration within other Latin American integrative groups appears to be in a state of lethargy, and, in the case of the Caribbean Community, disintegration.

Latin American economic integration is the net result of cooperation among sovereign states. Within the various integrative schemes, the actions of respective states are dictated in large part by forces of nationalism, differences in economic development, and differences in ideological outlook. All of these impact upon the processes of economic integration and must be understood in order to account for the success or failure of a particular economic integration body.

Inherent in any attempt to transform several individualistic national economies into a more unified system which would amalgamate diverse national interests into a single system shared by all member

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states, is a network of competing goals. Because each member state is economically unique, its willingness to cooperate in a regional economic organization depends upon the ability of the organization to aid that state in resolving its economic problems. Conversely, since the organization's role is to transform the economies of a number of lesser developed countries into a single, superior economic system, this requires the extraction of concessions from each member state.

Viewing the events of recent months in light of this system of competing goals, this survey focuses on the impact of recent economic developments upon the various integration schemes, and actions taken by Latin American countries, either unilaterally or in concert, that effect the dynamic process of economic integration.

THE ANDEAN COMMON MARKET (ANCOM)

As had been expected, the Cartagena Agreement Commission, meeting in extraordinary session in Lima, in February 1978, moved to extend all deadlines of the Cartagena Agreement which were associated with the implementation of the common external and internal tariff reduction, and the industrial development programs. Unlike the 1976 Lima Protocol, which amended the Cartagena Agreement by extending implementation deadlines, the new amendment, the Arequipa Protocol, does not change the 1983 target date set for tariff-free trade among Andean Pact members. Rather, responding to concern that the forthcoming presidential election in Colombia, Ecuador, Venezuela, and Bolivia might prevent approval of the proposed programs by the end of 1978, the new amendment merely extends, for one year, intermediate deadlines. The extension was made in an effort to give Pact countries time to consolidate gains they have already achieved in industrial development programming (engineering, petrochemicals, metalworking, and automobiles), and to approve other proposed programs which are still in the planning stages (chemicals and pharmaceuticals, steel, fertilizer, and electronics). Speedy ratification of the Arequipa Protocol is predicted

4. The name of the protocol—Arequipa—is derived from the Peruvian city where it was signed by the plenipotentiary representatives of the Pact's five member countries.
but, there may be a problem with Colombia, which has yet to ratify the Lima Protocol. Colombia will now have to ratify both the Lima and Arequipa Protocols at the same time.

At the reconvening of the 24th Ordinary Session of the Cartagena Agreement Commission in May, the petrochemical and metalworking programs were examined. Coming under particular scrutiny was the reallocation of products assigned for production by member countries which was necessitated by Chile's departure, and Venezuela's entry into the Pact. According to estimates released in May, revising the metalworking program alone will involve the reallocation of products worth $343 million. Two new decisions were approved by the Commission: Decision 126 concerning the development of Andean food technology, and Decision 127 which deals with standard import and export certificates for agricultural products. The Commission also considered reports concerning the fourth meeting of the Foreign Trade Council, which discussed, among other matters, the common external tariff, tariff application legislation and tariff exceptions, uniform export incentives, special treatment for Bolivia and Ecuador, and special rules of origin. A report was also received on the prospects for joint industrial development programs with Argentina, Brazil, and Mexico in the areas of automobile manufacturing, metalworking, and petrochemicals. Andean-Argentine and Andean-Mexican committees are expected to meet later this year.

Recently released statistics reveal that, even though 1977 was the first full year since Chile's withdrawal from the Pact in late 1976, Andean Pact trade with the rest of the world increased by 15.4% in 1977 to $30 billion, compared with $26 billion in 1976. The statistics indicate that the Pact's five member countries achieved a trade working); Bus. Latin Am., Mar. 1, 1978, at 69 (chemicals); Bus. Latin Am., Mar. 15, 1978, at 85 (electronics); and, Bus. Latin Am., Mar. 29, 1978, at 100 (pharmaceuticals).

10. Id. For an account of the Foreign Trade Council's meeting, see Andean Group., Mar. 1978, at 2.
11. Comercio Exterior de Mexico, June 1978, at 270. For an account of the Andean working group which studied the possibility of joint industrial ventures with Argentina, Brazil and Mexico (known to the press in the Andean countries by the generic name Abramex), see Andean Group, May 1978, at 5.
surplus with the rest of the world in 1977, with exports of $15.8 billion compared to imports of $14 billion, resulting in a favorable balance of $1,799 billion. Inter-Andean trade also rose sharply in 1977 to $775.2 million, a twenty-two percent increase over 1976's $643.3 million.\(^\text{12}\)

In April, the Automotive Industry Committee met in Lima where top automotive specialists from each of the Andean Pact countries discussed the standardization of parts and components, and reported on the member countries' progress toward choosing basic models. A report was also presented by the Junta—the Pact's technical integrative body—of costs, levels of vehicle component integration, production statistics, and technical specifications for new agreements.\(^\text{13}\)

In March, representatives of nine foreign automobile companies gathered in La Paz and Quito to present final bids for participation in the Bolivian and Ecuadorian allocations of the Andean Automotive Program.\(^\text{14}\) Bolivia announced in April, that its contract to produce medium weight trucks had been awarded to Mercedes-Benz.\(^\text{15}\) Mercedes-Benz will now form a mixed company with the state Comisión Nacional Automotriz which is made up of representatives from industry, commerce, and the Bolivian Armed Forces Development Corporation (COFADENA). The Bolivian armed forces, it has been reported, regard the automotive industry as strategic to the country's development and are insisting on participating in the foundry and assembly plant.\(^\text{16}\)

Fiat and Renault are expanding their operations in Colombia; and Venezuela, which has already signed contracts with Fiat and Pegaso, announced that General Motors and Renault have been selected to build six-cylinder engines for the Andean market. Peru, with the exception of a contract with Volvo to assemble heavy trucks and buses, has yet to award any contracts.\(^\text{17}\)

\(^\text{13. Andean Group, June 1978, at 4.}\)
\(^\text{15. Noticias, July 10, 1978, at 5.}\)
\(^\text{16. Latin Am. Econ. Report, April 21, 1978, at 117.}\)
\(^\text{17. Latin Am. Econ. Report, Mar. 3, 1978, at 65. For a current checklist of companies selected by Andean countries to participate in production under the Andean Automobile Program, see Latin Am. Econ. Report, Aug. 11, 1978, at 244.}\)
Bolivia's automobile production allocation is estimated to far exceed its internal market demand, and hopes are high in government circles that Bolivia will finally gain something from its membership in the Andean Pact which, until now, has more often been a source of frustration. As the least developed member of the Andean Pact countries, Bolivia requires special treatment. The normal difficulties of setting up an industry are exacerbated by the country's poor infrastructure and the need to import most raw materials. Inevitably, costs are increased, making other Andean Pact members reluctant to purchase Bolivian products. An example is the current controversy over Aquila S.A., the Bolivian business which has been planned to manufacture the pesticides assigned to Bolivia under the Andean Chemical Program and LAFTA Complementation Agreement No. 6. Colombia, which would be the principal buyer of Aquila's output, since it consumes fifty-five percent of all pesticides sold by the Andean Pact countries, has objected that, if it were obliged to use Bolivian pesticides, the production costs of its agricultural commodities would skyrocket. To resolve the dilemma, it was announced in March that Colombia would join the venture as a partner, holding fifteen percent of the equity, with Bolivia, Argentina, and the Andean Development Corporation (CAF) holding equities of thirty-five percent, forty-five percent, and five percent, respectively. There are still doubts about Colombia's commitment, however, and if the Aquila project collapses, Bolivia, feeling that the benefits do not justify its membership, might decide to follow through on its frequently repeated threats to withdraw from the Pact.

In other developments, the CAF, at its board meeting in March, approved credits amounting to $71 million; $38.5 million to Colombia, $9.5 million to Ecuador, and $23 million to Peru. Colombia will use its loan to finance a refinery in Cartegena which will process Venezuelan petroleum and, according to the press, serve as one of the most important cornerstones of integration between the two countries. It was announced in June that CAF was granting Bolivia a credit of $36 million to help finance Bolivia's embryonic automobile industry. The CAF has also agreed to issue $70 million worth of

bonds, of which $60 million will be purchased by the Venezuelan Development Fund. The remainder will be placed on the Venezuelan stock market.\textsuperscript{23}

According to recent estimates, the five Andean Pact countries will need to raise $33 billion over the next eight to ten years if they are to carry out, within prescribed deadlines, the Pact's industrial development programs. Because of the difficulties in raising such a vast amount over such a relatively short period, it has been suggested that consideration be given to rearranging the Pact's priorities and, possibly, slowing the growth of the integration process. Since the CAF will play such a central role in raising the $33 billion, an advisory committee within the CAF is currently considering the possibility of reorganizing the Pact.\textsuperscript{24}

Upon ratification by Venezuela and Peru of the proposal,\textsuperscript{25} the Andean Pact set up its long-awaited Andean Reserve Fund. Designed to aid member countries with balance-of-payments problems, the Fund will grant credits directly to needy members and act as a guarantor for loans made by third parties. It is also intended that the Fund will aid in the task of harmonizing member's exchange, monetary and financial policies. The capital base of the Fund will be $240 million, with Colombia, Peru and Venezuela each contributing $60 million, and Bolivia and Ecuador $30 million each.\textsuperscript{26} Besides its obvious value in aiding member countries ailing economies, the Fund's creation will help increase the unity and solidarity within the Andean Pact. Bolivia, the Pact's weakest member, has threatened more than once to withdraw from the Pact unless it receives special treatment. By making available to Bolivia a credit line of up to $105 million,\textsuperscript{27} the Fund provides the kind of special treatment demanded by Bolivia. In addition, at a time when, despite the Pact's apparent strength, one member statesman is speaking of its imminent collapse,\textsuperscript{28} the Fund reaffirms the viability of ANCOM and its capacity to facilitate trade and regional projects.

\begin{itemize}
\item \textsuperscript{23} Latin Am. Econ. Report, April 7, 1978, at 103.
\item \textsuperscript{24} Noticias, May 15, 1978, at 2.
\item \textsuperscript{25} Each country announced its ratification in June 1978. See Andean Group, June 1978, at 3 (Venezuela); and, Noticias, June 12, 1978, at 2 (Peru).
\item \textsuperscript{26} Bus. Latin Am., July 26, 1978, at 236.
\item \textsuperscript{27} According to Andean sources, Ecuador will also be able to draw up to $105 million, with Peru's credit line extending upwards to $150 million. Bus. Latin Am., July 26, 1978, at 236.
\item \textsuperscript{28} Immediately before the inauguration of President-elect Julio César, on Aug. 7, 1978, ex-Colombian President Lopez Michelsen began referring openly to the An-
LATIN AMERICAN ECONOMIC INTEGRATION

THE CENTRAL AMERICAN COMMON MARKET (CACM)

Since the ratification of the Treaty of Mediation by El Salvador and Honduras in late 1977, marked progress has been made toward the reestablishment of diplomatic and commercial ties between the two CACM partners. Following an unofficial meeting between Salvadorean President Romero and Honduran President Melgar Castro in April, the foreign ministers of the two countries met for talks aimed at settling the eight-year-old dispute. At the meeting, the foreign ministers of both countries hinted that the differences between the two countries may be moving toward some resolution. At one point the defense minister indicated that a treaty could be signed this year.

Currently, El Salvador and Honduras continue to suffer considerable economic disadvantages as a result of their conflict. In the past eight years Guatemala has become the major supplier of industrial products to Honduras, and the main supplier of basic grains to El Salvador, thereby filling the vacuum created when the latter two countries broke off diplomatic and trade relations with one another. Honduras has deeply felt the absence of Salvadorean capital and skilled labor, which were an integral part of Honduran economic development before the conflict. El Salvador has been affected by the closing of the Honduran market for its industrial products, and its search for new markets outside the area has met with little success. Thus, the reestablishment of relations between the two countries would almost certainly lead to a strong increase in intraregional trade, not only because of the opening of a new market for each country, but also because El Salvador's access to other countries (and vice versa) would be greatly improved once its products could legitimately travel through Honduras.

Nevertheless, deep political differences remain, and coupled with the political unrest currently plaguing each country, a peace...
treaty by the end of 1978 may be unrealistic. Indeed, optimism that a
signing may be in the offing was tempered by the May 1978, an-
nouncement of a recent arms purchase by Honduras from Britain.\textsuperscript{35}

While it is hoped that the successful conclusion of the El
Salvador-Honduras conflict will reawaken interest in Central Ameri-
ca's economic integration, it is not likely that it will automatically lead
to a restructuring of CACM. However, at a time when prices for the
region's primary export commodities—coffee, sugar, cotton, and
bananas—are falling,\textsuperscript{36} a peace treaty could, perhaps, cause more
serious consideration to be given to the proposals of the Secretaría
Permanente de Integración Económica Centroamericana (SEICA) for
the creation of a new Central American Economic and Social Com-
munity (CESCA).\textsuperscript{37} In fairness, however, the transition phase in
which Central American integration presently finds itself has not been
completely devoid of progress. Several instruments were recently ap-
proved, including the Regulations to Article IX of the General Treaty,
and the Third Protocol to the Central American Agreements on Fiscal
Incentives to Industrial Development, together with its correspond-
ing regulations. Joint action was also agreed to on the setting up and
implementation of a common Central American trade policy, which
would principally affect the marketing of sugar, meat, and other basic
commodities.\textsuperscript{38}

Nicaragua has put further strains on the already shaky unity of
CACM by imposing a thirty percent duty on imports from other
CACM countries. CACM's market regulations stipulate tariff exemp-
tion for products traded within the region.\textsuperscript{39}

Recent statistical comparisons attest to the importance of integra-
tion in stimulating trade between CACM countries. From a total of
\$287 million in 1970, Central American trade grew to \$542 million in
1974—a gain of eighty-nine percent, and to \$703 million in 1977—a
gain of 15.4%.\textsuperscript{40} In particular, Guatemala's trade with its CACM

\begin{itemize}
  \item \textsuperscript{36} Q. Econ., Rev., Guat., El Sal., Hond., \textit{supra} note 32, at 7-9; Bus. Latin
  
  \item \textsuperscript{37} Although the proposed draft of the Central American Economic and Social
  
  \item \textsuperscript{38} Comercio Exterior de Mexico, \textit{supra} note 30, at 267.
  \item \textsuperscript{39} Noticias, July 31, 1978, at 2.
  \item \textsuperscript{40} Comercio Exterior de Mexico, \textit{supra} note 30, at 267.
\end{itemize}
partners rose from $218 million in 1976 to $256 million in 1977, a seventeen percent gain. El Salvador remains Guatemala’s principal trade partner, taking almost fifty percent of Guatemala’s exports. Costa Rica and Nicaragua follow with twenty percent and Honduras with ten percent. El Salvador’s CACM trade is also rising steadily, but the balance does not favor El Salvador. In 1977, exports were $150 million and imports $201 million, for a $51 million deficit, compared with a $37 million deficit in 1976.

At the Third Annual Central American Conference in January 1978, the Inter-American Development Bank (IDB) proposed the creation of a Central American Investment Bank, in a further attempt to mobilize additional financial resources for Central America’s industrial development. Under the proposal, half of the investment bank’s capital base would come from Central American sources, with the remainder coming from sources such as the World Bank and the IDB. The importance of the Central American Bank for Economic Integration (CABEI) to the creation of any such institution was also stressed.

**LATIN AMERICAN ECONOMIC SYSTEM (SELA)**

The Sistema Económica Latinoamericano (SELA) held its Fourth Council meeting in Caraballeda, Venezuela from April 3 to 5. The meeting was attended by representatives from twenty-five Latin American countries. At the meeting, seven regional projects for cooperation were discussed and several important decisions, including one which will facilitate Latin American coordination at the international level were adopted. In addition, the Council increased the number of countries represented on various action committees, continued negotiations toward the setting up of multinational enterprises, issued a statement of intent to step up regional cooperation in technology, and approved Surinam’s incorporation into SELA as that organization’s twenty-sixth member. A special meeting was held in late April to define the terms of reference which are to be applied to a regional network for technology information, the Red de Información Tecnológica (RITLA). According to SELA, a high volume of

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43. IDB News, No. 2, April 1978, at Insert.
44. Comercio Exterior de Mexico, May 1978, at 228; IXX Venezuela Up-To-Date, Summer 1978, at 18.
technology will be required as Latin American economies grow from five percent to 6.3% during the 1980's. In an attempt to assure that most of this technology comes from Latin American sources, RITLA will be designed to identify and distribute the region's existing technology, compile directories of engineering firms, stimulate investment projects and assimilate the experience gained in negotiating technology contracts. Latin American sources hope that RITLA will reduce the area's reliance upon technology brought in by transnational corporations.46

THE LATIN AMERICAN FREE TRADE ASSOCIATION (LAFTA)

In contrast with the absence of any general organizational initiative to revitalize the Latin American Free Trade Association (LAFTA), several sectorial meetings have been held during the past few months. However, the results of these meetings have been relatively unimpressive.

Aluminum industry representatives met in Montevideo, in April, to recommend tariff-cutting measures for the association. But, while the meeting was well attended and information was exchanged on the state of the aluminum industry in member countries, no consensus was reached on a complementation agreement.47 The Sixth Meeting of the Graphics Industry was also held in April. Since the member countries had failed to act on a previously drawn-up complementation agreement for the industry, no new tariff cuts were proposed. Argentina, Brazil, Chile, and Uruguay, the "big four" behind the proposed agreement, reiterated their interest in the accord and emphasized that its terms are still valid. With interest waning at governmental levels, however, the proposal is unlikely to come to fruition.48 LAFTA's most active sectorial group, the electrical equipment sectorial, met recently in Bariloche, Argentina, where over fifty international firms were represented, including Burroughs, Gillette, 3M, Philips, Standard Electric, and Union Carbide. Despite past success, however, the group, succumbing to the general malaise of LAFTA, proposed no new complementation agreements. Instead, the sector's five subgroups concentrated on extending concessions previously granted on a temporary basis and on expanding two existing accords; No.23 by

46. Id.
The tenth meeting of LAFTA's photographic manufacturers was held in Montevideo, in May, at which time delegates from Argentina, Brazil, Chile, Colombia, Mexico, Peru, Uruguay, and Venezuela recommended the negotiation of thirty-six additional tariff cuts for products included under the industry's Complementation Agreement No. 18. A one year extension of concessions, until December 1979, was also requested. One problem addressed at the meeting was LAFTA's fast-approaching free-trade deadline, now set for December 31, 1980. It was decided that a new deadline should be set to allow the complementation accord to continue without hindrance. However, an official decision is not likely to be reached before the Foreign Ministers Council is convened, at an as yet unscheduled date.

The fifteenth meeting of the pharmaceutical sector was recently held in Montevideo, and was attended by delegates from Argentina, Brazil, Mexico, Uruguay, and an observer from the Latin American Federation of Pharmaceutical Industries (FIFARMA). The meeting was also attended by representatives from several international companies, including Bayer, Hoechst, and Roche & Schering. Requests were made to increase the tariff cuts on 153 previously negotiated products and to include twenty-four new products in the industry's Complementation Agreement No. 15. The delegates from Argentina, Brazil, and Mexico decided to study whether paramedical products should be established as a separate industry sector within LAFTA or simply incorporated as a subsector of the pharmaceutical industry.

THE CARIBBEAN COMMUNITY (CARICOM)

In the face of predictions, by commentators and member statesmen alike, of the Caribbean Community's (CARICOM) imminent collapse, CARICOM ministers met on July 17 and 18, in Kingston,

51. In the case of extending LAFTA's free-trade deadline only LAFTA's Council on Ministers has the authority to act. To date, the Council has never met and is unlikely to do so in light of the argument by the Andean members that the technical conditions for a useful meeting are not present. The dilemma is apparent—only the Council can provide the solutions which would satisfy the Andean countries and allow the Council to meet.
53. The Prime Minister of Trinidad and Tobago has confessed his country's failure to foster regional development projects and has suggested that the "near total col-
Jamaica for the Twelfth Meeting of the Common Market Council of Ministers, in an urgent attempt to revitalize the near-moribund integration group.

As outlined by the CARICOM Secretariat, one principal focus of the meeting was an attempt to reverse the steady decline in intraregional trade which had been precipitated by the 1977 erection of trade barriers by member countries, in particular Jamaica, Guyana, and Trinidad and Tobago. Recently released trade statistics show that trade between these three countries, which represent CARICOM’s three largest consumer markets, was severely constricted last year. Jamaica’s CARICOM imports fell an average of $24 million in 1977. Exports from Trinidad and Tobago to Jamaica dropped by forty-one percent during the first eleven months of 1977, and, while 42.3% of Trinidad’s CARICOM trade was with Jamaica, Jamaica’s trade with Trinidad declined to eleven percent of its total CARICOM imports. And, for the first time, non-oil exports from Trinidad and Tobago to Guyana went into the red.

While at this writing, detailed information of the progress made at the council meeting is sketchy, it was announced that Jamaica, in a move obviously intended to soothe the resentment caused by its frequent purchases from non-CARICOM countries, will earmark $12.6 million for regional imports during the latter half of 1978, exclusive of purchases of oil from Trinidad and Tobago and rice from Guyana. Guyana, for its part, expressed commitment to increasing its level of CARICOM imports, but, beyond an in-depth study of the situation, announced no positive steps toward this goal. The Council of Ministers also decided that since all the problems associated with the implementation of the Community’s new Origin Rules and restructured Common External Tariff had been resolved, both arrangements would be implemented, effective January 1979.

While the convening of CARICOM’s Council of Ministers was undoubtedly the most significant event occurring within the Community in the past few months, the CARICOM Secretariat was also host to a series of other meetings by CARICOM ministers and offi-

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cials. These meetings included a meeting of CARICOM's Standards Council on April 27 and 28, 58 a meeting of technical officers on May 11 and 12 to work out a format for a CARICOM survey of the region's educational broadcasting resources, 59 an inaugural meeting on July 4 and 5 of CARICOM law reform agencies, 60 and a meeting on July 25 of CARICOM health ministers. 61 The Eighth CARICOM Conference on Oils and Fats was held on July 15, 1978, to determine the export price of copra and edible oils. 62

Guyana, in what appears to be a toughening of its position over the Courantyne River dispute, recalled its ambassador to Surinam in early April for consultation, putting further strains on the already shaky unity of CARICOM. Sovereignty over the Courantyne River, which forms part of the border between the two CARICOM partners, became an issue earlier this year when Surinam banned Guayanese fishing in the river. 63

Estimates released by the World Bank of capital needed for Caribbean development at $1.05 billion over the next three years. 64 In an effort to meet this figure, the United States Agency for Inter-American Development (USAID) has proposed that $81.7 million, nearly one third of its Latin American development budget for 1978, be allocated for use in the Caribbean in the form of development assistance and bilateral development programs. 65

**THE AMAZON PACT**

Pushed through from first draft to final signature in the remarkably short time of fifteen months, the Tratado de Cooperación Amazónica was signed on July 3, 1978, by the foreign ministers of Bolivia, Brazil, Colombia, Ecuador, Guyana, Peru, Surinam, and Venezuela, thus bringing to fruition Latin America's newest integration effort—the Amazon Pact.

In broad terms, the Amazon Pact accord resembles the association formed by the countries of the River Plate Basin (Argentina,
Bolivia, Brazil, Paraguay, and Uruguay). The Pact emphasizes mutual cooperation in scientific research and data collection, conservation of natural resources, encouragement of border commerce and tourism, development of road networks, building transportation and communication infrastructures, and development of hydroelectric projects. Unlike the River Plate Basin Treaty, however, and bespeaking the general fear of the Amazon Basin countries of Brazilian hegemony, all reference to a "statute of common rivers" is absent, as well as any specific reference to physical integration of the region. Nor does the treaty, in contrast to the draft version, provide for a customs union.

The treaty will go into effect thirty days after the Brazilian government receives the ratification of the signatory countries. The first meeting of foreign ministers is to take place within two years of that date. An Amazon Cooperation Council, with delegates from each signatory country, will meet annually to evaluate and supervise the treaty's progress. All decisions adopted at the sessions must be unanimous. Each country is also to set up a national commission in charge of applying the accord.

In an unrelated development, Galo Montano, Ecuador's trade minister and president of the CAF, caused quite a stir, in March, by advocating the economic integration of the countries of the Andean Pact with the countries of the Amazon Basin. A similar furor occurred last year, when, during a state visit to Brazil, Venezuelan President Carlos Andrés Pérez and Brazilian President Ernesto Geisel agreed that the Amazon Pact was not only viable, but that it would provide an effective way of giving Brazil access to the Andean Pact.

**Economic Outlook**

Latin American economic prospects for 1978 and subsequent years appear quite healthy, with the region's Gross National Product (GNP) expected to grow an average of 5.6% during the period from 1979 to 1983. Economic growth for the "big three" during this period is expected to average 6.6% annually.

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period is expected to range from an estimated one percent in Argentina to 4.5% in Mexico and five to six percent in Brazil.\textsuperscript{72} Prospects among the medium-sized countries are even more varied. Venezuela and Ecuador expect to enjoy a robust growth of seven percent,\textsuperscript{73} while Peru, still on the verge of bankruptcy, may suffer as much as a three percent contraction in its GNP.\textsuperscript{74} Increasing amounts of foreign investment are flowing into Chile,\textsuperscript{75} while Colombian exports are expected to reach the two billion dollar mark, with non-traditional exports jumping about twenty percent.\textsuperscript{76} A downturn in commodity market prices has somewhat dampered the prospects for future healthy growth in Central America.\textsuperscript{77} Increased government spending on public works programs, however, will ameliorate the situation to some extent.\textsuperscript{78} In Guatemala, El Salvador, and Nicaragua, the GNP is expected to grow an average of five percent.\textsuperscript{79} In contrast, the English-speaking countries of the Caribbean, with the notable exception of Trinidad and Tobago, are expected to remain in recession, with their GNP's either stagnating or contracting by as much as five percent.\textsuperscript{80}

A number of Latin American countries are now pursuing the growth-with-stability model, and have exhibited an ability to successfully cope with the vexacious problem of inflation. An exception is certainly Argentina where the cost of living (COL) is expected to rise 130% in 1978.\textsuperscript{81} Chile, in contrast to Argentina's run-away inflation rate, expects that, compared with a COL increase of 63.5% in 1977,\textsuperscript{82} inflation will be held to between twenty-five and thirty percent in 1978.\textsuperscript{83} Other predicted COL increases are: Colombia, twenty-five

\begin{itemize}
  \item \textsuperscript{74} Bus. Latin Am., Feb. 8, 1978, at 44.
  \item \textsuperscript{75} Bus. Latin Am., Aug. 2, 1978, at 243.
  \item \textsuperscript{76} Bus. Latin Am., Aug. 16, 1978, at 262.
  \item \textsuperscript{77} Q. Econ. Rev. Guat., El Sal., Hond., supra note 34, at 7-9; Bus. Latin Am., Mar. 15, 1978, at 81.
  \item \textsuperscript{80} Bus. Latin Am., Jan. 4, 1978, at 4-7.
  \item \textsuperscript{81} Latin Am. Econ. Rev., May 12, 1978, at 138.
  \item \textsuperscript{82} Chile Econ. News, No. 83, Feb. 1978, at 5.
  \item \textsuperscript{83} Latin Am. Econ. Report, Mar. 24, 1978, at 93.
\end{itemize}
percent; Venezuela, eighteen percent; Mexico, twelve to fifteen percent; Ecuador, fifteen percent; and Brazil, forty-three percent.  

The Achilles heel of Latin America will remain its balance-of-payment position. In light of a recently completed report by the United Nations Economic Commission for Latin America (CEPAL), however, there is room for optimism. The report, based upon a tally of twenty-three Latin American and Caribbean countries, shows the region to have posted a $6.0 billion payments surplus in 1977, compared with $3.5 billion in 1976. While several factors contributed to the balance-of-payments surplus as a whole, Latin America's improved export performance was clearly the most important. Exports from the area rose a healthy twenty-two percent in 1977, to $52.6 billion, while imports grew eleven percent, to $47.6 billion.

An excess liquidity resulting from slack demand in the industrialized world has provided Latin American countries with a fertile source of credit. With a turnabout to a borrower's market, debt ridden governments are losing no time in shaving interest costs and stretching maturity dates through debt financing. In a parallel trend, new loans are being arranged at lower rates to repay existing debts contracted in the mid-1970's (or earlier) and not yet due. Banks are not pleased with this trend, however, since early repayment means a considerable loss of income, which is exacerbated by the need to drastically lower interest rates on new loans to meet fierce international competition. As a result, some countries may find that savings on borrowing costs now will weigh heavily against them later when bank liquidity begins to contract as the economies of industrialized nations pick up and their demand for credit skims off available funds. At that time, Latin American governments will no longer dominate the market in loan negotiations and, bankers may be less willing to accommodate borrowers that previously undercut their earnings.

Finally, unresolved differences between the United States and the IDB over loan policies and financial support place the future of the Bank as an important catalyst for Latin American development under a dark cloud. There are three major points to the conflict, the first of which is the decision of the United States to impose its human

rights policy as a condition for multilateral lending. Holding 35.3% of the IDB's voting power, the United States has reportedly vetoed several loans to Latin American countries that are, it alleges, violating human rights. Of the five Latin American countries that have come in for United States criticism on human rights grounds—Argentina, Brazil, Chile, Uruguay and Nicaragua—three have registered a marked decline in their receipt of IDB loans. Second, as of the end of April 1978, the United States was $264 million in arrears in its IDB appropriations due to extended Congressional debate over human rights treatment in IDB loan recipient countries. However, while in arrears with its appropriations, the United States still holds voting shares commensurate with its promised subscription. Third, the United States has made no secret of its opposition to Fund for Special Operations (FSO) lending to Latin America. FSO loans carry rates of three to four percent, maturities of up to forty years, and grace periods of ten years. On the other hand, ordinary capital loans, which cost 7.5%, have short maturity dates and no grace periods. The United States position does not augur well for the IDB’s ability to continue preferential financing for less developed Latin American countries, whose balance-of-payments positions simply will not withstand loss of FSO loans.87

Unless these differences are resolved, the IDB faces a drastic curtailment of its lending ability, with a domino effect hitting banks and companies directly or indirectly involved with IDB programs. The problem is exacerbating already discordant United States-Latin American relations and could even culminate in a restructuring of the IDB itself.