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Latin American Economic Integration

Edward M. Livingston

Richard D. Newman

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A recurrent crisis which has plagued the Andean Common Market (ANCOM) for the past year (8 Law.Am. 832, 1976) resulted in the withdrawal of Chile from the Andean Pact. The withdrawal, announced on October 31, 1976, followed several days of unsuccessful negotiations aimed at resolving fundamental differences in the treatment of foreign trade and investment within the region. Despite apprehensions that the Chilean withdrawal would prompt the stagnation of the Pact, there is speculation that the withdrawal of the Pact's most dissident member may result in a return to the political stability which had been the hallmark of ANCOM progress since the date of its inception.

The present dispute is the logical outcome of the dramatic political upheavals which have occurred in Chile since the overthrow of the socialist-Marxist regime in 1973. During the early stages of the Pact (1969-1973), the Chilean government vigorously advocated ANCOM programs designed to promote regional and national autonomy over foreign-owned businesses and investments. Thus, in 1970, Chile was instrumental in influencing the Cartagena Commission to enact the Andean Code on Foreign Investment (Decision 24). The Code established a regional regulatory system for the treatment of foreign capital, trademarks, patents, licenses, and royalties. (5 Law.Am. 259, 1973; 8 Law.Am. 635, 1976). The salient provisions of Decision 24 require that each member government “renationalize” its economy by: (1) acquiring a 51% interest in all foreign investments by 1985; and (2) limiting profit remittances abroad by foreign companies to an amount not exceeding 14% of total net profits per year. The terms of Decision 24 were incorporated into Chilean legislation in Decree 482 of 1972.
The present Chilean government, however, has deemphasized nationalism or regionalism while placing a high priority upon the attraction of foreign investment through the elimination of trade barriers. Chilean representatives in ANCOM have criticized as wasteful the provisions for mandatory expenditures of local capital for the acquisition of foreign investments. They claimed that this capital would be more efficiently utilized if allocated for investment in local job-creating ventures. In 1974, Chile enacted legislation which substantially nullified the impact of Decision 24 within the country. Decree Law 600 of 1974 grants broad concessions to foreign investors, including the right in some instances to reacquire state-owned properties and the right to remit profits abroad without regard to the 14% limitation.

A further source of controversy involved the level of the common external tariff. While Chile favored a low tariff (ranging from 10 to 35%), the other members wanted a tariff four to five times higher as a means of protecting local industry against competition from foreign imports. As in the case of Decision 24, Chile adopted legislation which openly contravened the spirit and intent of ANCOM tariff policy. For example, Article 17 of Decree Law 600 provided for duty-free entry of capital goods to be used in the development of business or investments in which the foreign ownership interest exceeds 20%. The apparent objective was to encourage foreign control of business ventures and other investments within the country.

The refusal of the other ANCOM members to agree to Chilean proposals to renegotiate the terms of Decision 24 and the common external tariff were the focal points of the recent dispute and the main factors contributing to the Chilean withdrawal. In addition, ANCOM members opposed Chile's insistence that the proposed extensions to the sectorial program deadlines (Decision 100) not be implemented until an accord was reached on the foreign investment regulations. The position of the majority of the ANCOM members was summarized by the Peruvian Foreign Minister earlier this year as follows: "... either we adopt independent development models leading to the total liberation of our peoples, or we consolidate a situation of domination and dependency perpetuating our condition as underdeveloped countries."

The consensus among ANCOM officials is that the Chilean withdrawal will not have a substantial adverse impact upon the integration process. In 1975 Chile imported $197 million from ANCOM sources pursuant to the tariff cutting program and exported $115 million. These fig-
ures represented only 10% of the country's total trade and a very small percentage of total ANCOM trade. Moreover, two of Chile's major exports to ANCOM members—newsprint and pulp—would have been lost in any event under the sectorial development program.

According to Mr. Robert Taylor, Financial Economist for Latin America in the U.S. Department of State, it is likely that the Chilean withdrawal will cause delays in the sectorial development programs due to the need to reallocate industries to other nations. However, since these programs were extremely ambitious and insofar as most industries have yet to commence operations, Chile's action comes before any substantial damage to the programs can result.

It appears that any economic loss caused by the withdrawal of Chile may be offset by the existence of greater political cohesion within the Pact.

CARIBBEAN COMMUNITY

New Origin Rules and Process List Could Affect Trade

The Caribbean Common Market (CARICOM) recently agreed to the introduction of new origin requirements for goods manufactured in the region to replace the value-added system which has been in existence since 1968. The new system went into effect for the four more-developed countries (The "Big Four": Barbados, Guyana, Jamaica, and Trinidad-Tobago) on January 1, 1977.

The CARICOM treaty specifies three criteria for determining regional origin status: (1) 100% manufacture in the region; (2) local-value added to regionally made products that use less than 50% foreign inputs; and (3) manufacture in the region using processes to be specified in a process list. Manufactured goods meeting any of these criteria can qualify for duty-free CARICOM access.

The implementation of the new origin system by the eight lesser developed countries (LDCs) is to be considered at a meeting of the Common Market Council of Ministers in January, 1977. Until that time, the local value-added criterion will give regional status to products manufactured in LDCs which use less than 60% foreign inputs rather than the 50% requirement applicable to the "Big Four."
The local value-added criterion is a compromise. The Process List was to replace this criterion for all member countries because of the difficulty under the old system in determining whether a finished product originated in CARICOM. Under the old system, imported raw materials and semi-manufactured components were regarded as having originated in CARICOM. The LDCs argued that eliminating the value-added criterion in favor of the Process List method would result in diminished trade opportunities, since the LDCs produced more goods from such imported raw materials.

Consequently, the “Big Four” introduced the new Process List method as the only rules-of-origin criterion for trade among themselves. The Process List itself has remained confidential. However, in operation, the system will accord area origin treatment to a finished item produced from imported materials and components only if the manufacturing or processing operation results in a change in tariff classification between the imported starting inputs and the finished product. In addition, the new Process List will specify certain manufacturing or processing operations which must be done locally.

Although the two-tiered system is viewed by the CARICOM ministers as only a temporary arrangement, the delay in full adoption of the Process List by CARICOM could create compliance problems for importing countries thereby leading to a reduction in intra-regional trade.

Caribbean Food Corporation Agreement

The Caribbean Food Corporation is the mechanism which will be used to implement the Regional Food Plan adopted by the Conference of Heads of Government held in December, 1975. The purpose of the Food Corporation is to achieve greater regional self-sufficiency in food production through investment in activities related to the purchase, processing, transportation, marketing and distribution of food. Guyana became the first member to sign the agreement in August of 1976 with other CARICOM countries following suit in September. The implementation of the Regional Food Plan through this agreement, together with the amount of authorized capital shares of the Corporation, $100 million, indicates that the Caribbean countries are well on their way in attempting to integrate food production.
LATIN AMERICAN ECONOMIC INTEGRATION

IMPROVED OUTLOOK FOR LATIN AMERICAN ECONOMIES

The economy of Latin America appears to be regaining the rate of growth it experienced prior to 1974. By 1970 Latin America had attained a sustained rate of economic growth of about 7%. However, in 1975 Latin America suffered its worst recession since World War II as reflected by a growth rate of only 3% compared to 7.2% in 1974.

The rate for 1976 is expected to be between 3% and 4%, due to the belated impact of world economic recovery on Latin America. The full impact should be reflected in 1977, although improved economic growth will continue to be accompanied by a high rate of inflation caused by the heavy external borrowing of the oil-importing countries of Latin America during the 1974-75 recession. Nevertheless, favorable conditions in many sectors of the economy point to improved prospects for future growth.

In the area of industrial production, Latin America began a strong recovery in late 1975 which should continue through 1977, albeit tempered by the difficulty several countries are having in financing the necessary level of imports to support current production growth. Although the rate of growth of the petroleum industry has lagged behind that of other developing economies, greater external cooperation and world demand should help return the industrial sector to its pre-1974 growth rate of about 9%.

The agricultural sector has experienced slow growth in comparison to the economy as a whole. The value added by agriculture to the domestic economy improved in 1974 relative to other sectors, but these increases were more a result of farm area expansion than of yield improvements. However, a rapid shift in population growth from the rural farming areas to urban centers (89.4% between 1960 and 1975) has made the improvement of farming techniques of paramount concern. Consequently, concerted effort in this direction, similar to the regional food agreement of the Caribbean nations, is essential to reduce the strains on the production, processing, and marketing of food in Latin America.

Other economic indicators are certain to reflect the growth Latin America should experience in 1977, although the disparity between the net oil-exporting countries (Bolivia, Ecuador, Trinidad-Tobago, and Venezuela) and the non oil-exporting countries will continue. Due to the continuing price increases for imports, the non-oil countries’ trade gains deteriorated drastically in 1974 and 1975 in contrast to the considerable
gains made by the major oil exporters. The same disparity occurred in the balance of payments and international reserves positions of the Latin American countries. Nevertheless, the upward trend of prices for primary commodity exports (particularly coffee) and the improved economies of the world's industrial nations will certainly aid the economic recovery of Latin America. However, greater economic cooperation between the oil and non-oil exporting countries of Latin America is necessary to cure the drastic disparity of economic growth which currently exists.