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The Andean Group: An answer to some problems of LAFTA

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18

The Andean Group: An answer to some problems of LAFTA

by Sven Heldt

C O N T E N T S :

- Regional economic integration is considered as an efficient mean to accelerate economic development of the participating states. It is therefore one of the major themes of the next UNCTAD conference.

- One famous example of integration between developing countries is LAFTA (Latin American Free Trade Association). LAFTA failed, however, in so far as the smaller members were not able to achieve the gains in industrial development they had hoped for. This seems to have been due to the fact that LAFTA mainly concentrated on trade liberalization.

- An answer to these shortcomings is the Andean Group, formed by Bolivia, Chile, Colombia, Ecuador, and Peru. The Group tries to solve the problems through implementation of sectorial programs of industrial development and a harmonized investment policy.

- The Andean Group is therefore a unique example where trial and error lead to a new and possibly more adequate form of economic integration.

I N S T I T U T F Ü R W E L T W I R T S C H A F T K I E L · F E B R U A R 1 9 7 2

Die Kieler Diskussionsbeiträge wenden sich an die wirtschaftspolitisch interessierten Freunde des Instituts für Weltwirtschaft. In den Beiträgen, die in unregelmäßiger Folge erscheinen, erörtern Mitarbeiter des Instituts Fragen von allgemein wirtschaftspolitischem Interesse.

The Andean Group: An answer to some problems of LAFTA

Regional economic integration has gained importance in the last years as a useful tool to accelerate the economic development of the developing countries. The preoccupation for this type of cooperation is reflected in the program for the second development decade elaborated by the United Nations and in the discussion program of the next meeting of UNCTAD (United Nations Conference for Trade and Development), that is going to take place in Santiago de Chile this year.

The Latin American subcontinent has been one of the developing regions where regional economic integration has been tried for a quite long period and where some results have already been achieved. In Latin America we can even observe a peculiar example in so far as in reaction to the failures of Lafta (Latin American Free Trade Association) a new group has been formed, namely the Andean Group. This offers a unique opportunity to study, on the one hand, the causes why Lafta partially failed and, on the other hand, the measures which are expected to lead to better results in the Andean Group.

Origins of Lafta (Latin American Free Trade Association)

1. At the beginning of the last post-war period, the primary export goods of the Latin American countries had very good markets in the devastated countries of Europe. But Europe's recovery was rapid and it affected negatively the prospects of exports of Latin American products, stagnating and even contracting their external markets with the years. The creation of the European Economic Community in 1958 raised the fear that a discriminatory policy against Latin American exports would worsen even more the prospects for the future.

2. A further reason for the deterioration of the economic situation in Latin America was the collapse of the existing interregional trade arrangements in the period 1955-1960. The principal partners of these arrangements, which accounted for more than 50% of intraregional trade[1], were Brazil, Uruguay, Paraguay, Argentina and Chile.

These countries were members of Gatt and therefore had to comply with the rules of this organisation. Since Gatt forbids discrimination[2], they had to end their trade arrangements, which clearly discriminated against third countries.

But the participating countries believed that the trade arrangements were beneficial to them. They therefore tried to find a legal basis which would enable them to continue their special relations without violating the General Agreement. A solution was found in Article 24[3], which sanctions customs unions and free trade areas.

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[1] This trade concerned principally wheat, meat, sugar, fats and fruits, Argentina and Brazil being net suppliers and Chile and Uruguay net importers.

[2] Article 1 of Gatt refering to most favoured nation treatment.

[3] Article 24 of Gatt refering to territorial application, frontier traffic and customs unions.

3. For these reasons, the Latin American Free Trade Association was created by Argentina, Brazil, Chile, Mexico, Paraguay, Peru and Uruguay. These seven countries signed a multilateral agreement to establish the Association on 18th February, 1960 in Montevideo, Uruguay. Bolivia, who participated in the negotiations, did not join at the beginning, saying that most of its trade was directed to countries outside Latin America and that therefore, it did not have competitive products to export to Latin America and that it was not disposed to subsidize the industry of the partner countries by shifting its imports to them. But later on, in 1967, Bolivia saw itself forced to join Lafta, since it was in an isolated position in Latin America. As early as 1961 Colombia and Ecuador became members of the Association and in 1966 Venezuela also joined. In this way, Lafta constituted itself as the widest ranging integration effort realized between developing countries, covering almost the whole Latin American sub-continent, with the exception of Central America and the Caribbean countries.

Table I: Latin America: some economic indicators for the year 1969

Countries	Surface (1) (thous. Km^2)	Population (2) (thous. 1970)	Urban (2) Pop. (thous. 1970)	GDP (3) in US-$ of 1963 (mill.)	GDP, (4) Capita in US-$ of 1963	Annual average (5) growth rates of GDP, at factor prices, 1960-69	
						total	per capita
Argentina	2.776, 7	24.081	16.978	16.569	704	3, 5 %	1, 9 %
Bolivia	1.098, 6	3.956	1.002	660	142	5, 4 %	3, 0 %
Brazil	8.512, 0	93.545	50.025	27.727	316	5, 5 %	2, 6 %
Chile	741, 8	9.510	7.007	3.489	373	4, 5 %	2, 0 %
Colombia	1.138, 3	21.168	11.648	5.867	296	5, 0 %	1, 5 %
Costa Rica	50, 9	1.767	640	759	463	7, 0 %	3, 1 %
Dominican Rep.	48, 4	4.324	1.601	1.144	284	3, 4 %	0, 1 %
Ecuador	270, 7	6.089	2.283	1.299	226	4, 5 %	1, 1 %
El Salvador	20, 9	3.499	1.392	951	292	5, 6 %	2,.3 %
Guatemala	108, 9	5.172	1.892	1.587	327	5, 2 %	2, 2 %
Haiti	27, 8	4.856	857	367	77	1, 5 %	-0, 8 %
Honduras	112, 1	2.703	700	623	258	5, 3 %	1, 8 %
Mexico	1.967, 2	50.624	29.468	23.910	504	6, 9 %	3, 3 %
Nicaragua	139, 0	1.986	869	698	376	6, 3 %	3, 2 %
Panama	75, 7	1.465	685	825	602	7, 7 %	4, 3 %
Paraguay	406, 8	2.378	852	500	224	4, 5 %	1, 1 %
Peru	1.280, 2	13.581	6.256	3.912	305	5, 1 %	2, 0 %
Uruguay	186, 9	2.889	2.433	1.578	559	0, 6 %	-0, 6 %
Venezuela	898, 8	10.390	7.934	9.058	937	4, 7 %	1, 3 %

Source: (1) Compendio Estadistico de America, 1968, Union Panamericana.
(2) Socio Economic Progress in Latin America. Annual Report 1969, p. 99.
(3) Calculated from Socio Economic Progress, Annual Report 1969, p. 15 and 16 and 1970, p. 2.
(4) Calculated from Socio Economic Progress in Latin America, 1969.
(5) Estudio Económico de America Latina, 1969, primera parte, p. 7.

Trade liberalization within Lafta and its problems

4. The participating countries in Lafta agreed to eliminate all duties and other restrictions on almost all their reciprocal trade in the course of a period of 12 years. This was to be achieved by annual negotiations similar to those followed by Gatt (Kennedy Round, Dillon Negotiations). In this way, two or more interested countries who want to reduce tariffs on a specific product, negotiate with each other. The agreement reached is extended to all member countries, who then have to make some concessions in return. In this way, this procedure becomes very complicated.

During these negotiations each member country had to reduce the equivalent of not less than 8% of the weighted average nominal duties applicable to third countries. The sum of the concessions of each country constituted the so-called National Lists.

5. While the National Lists are based on the percentages of tariff reductions, irrespective of the products concerned, there is still another procedure necessary in order to secure the liberalization of trade between the Lafta countries: a so-called Common List is drawn up of products on which all countries agree upon the ultimate elimination of duties. This list is in so far final, as the products included cannot be removed again. It should cover 25% of trade among the participants at the end of the first 3 year period, 50% at the end of the second, 75% at the end of the third and more or less all of such trade by the end of the fourth.

6. Within the area, the process of liberalization is based on the following principles: graduality of the process of liberalization; reciprocity in the concessions; and unconditional and unlimited application of the clause of the most-favoured nation.

7. These rules of trade liberalization were, however, not sufficient to bring about the expected development of trade between the member states. The data for the period 1950-1969 were so far disappointing.

Table II: Inter-Latin-American trade: percent of total trade

1950	1955	1960	1965	1967	1968	1969 (1st sem.)
7.9	9.5	7.9	9.7	10.3	11.0	10.8

Source: U.N. Yearbook of International Trade Statistics.

8. This situation was aggravated when in 1967 no agreement could be reached for the second part of the Common List, which was mainly due to the failure of the inclusion of wheat and petroleum, which accounted for more than 25% of zonal trade[1].

Moreover, the average reduction of 8% annually on tariffs, irrespective of products, enabled the postponement of the more difficult ones to the end, leading to the general stagnation in the negotiations which have been experienced in recent years. Not to mention the non-existing trade of some products which might be shut off by prohibitive tariffs and not included in the average reduction.

Also, only 30% of the existing 18,000 positions of concessions granted till the beginning of 1970 were utilized during the year 1969, 11,000 of them can be found in the National Lists. This reflects the fact that many concessions, specially for industrial goods where

[1] It should be remembered that the second three year period was over in 1967.

production and trade is at present unimportant, were granted with the knowledge that they would not be utilized in the foreseeable future (see Table III, which shows the latest published break up).

Table III: Lafta: Distribution of the concessions in the National Lists up to January 1, 1967

Chemical industry and related products:	2229 concessions	23, 73%
Agricultural products:	2165 concessions	23, 05%
Electric machinery, appliances and parts:	2085 concessions	22, 20%
Products of the metal industry:	950 concessions	10, 11%
Other industrial, semifinished and finished products:	1635 concessions	20, 22%

Source: Alalc, Sintesis Mensual, March 1967, p. 118.

National entrepreneurs were apparently too weak or disinterested to use these concessions, as were foreign investors, who preferred to keep operating in national markets.

This may explain the fact that the small countries (Ecuador, Paraguay, Uruguay) are those who, relatively seen, have given the most concessions (32.6% in 1967), not having been able to expand or substantially diversify their trade. It seems that Lafta has not been able to provide sufficient scope to induce autonomous changes in the pattern of production and trade to those members who are in a lower development stage or who have inadequate domestic markets.

9. During the IX Conference of Lafta in 1969, the so-called Caracas Agreement was signed, which showed that Lafta could not keep pace with the original plan set by the Treaty of Montevideo . The transitional period was postponed from 1973 to December 1980 and the rate for lowering the duties was reduced to 2.9% (previously 8%) of the average annual import duties. The setting up of the new rules to form the Common List was also postponed until 1974, when a new phase in the integration process of Lafta should start. The Caracas Agreement is considered as a triumph of the position of the three big (Argentina, Brazil and Mexico), who are exclusively interested in the commercial aspects of the integration, since they think that the present pace of lowering the duties gives them sufficient space to expand their trade without the need of giving the less developed members any further concessions.

The process of import substitution in these countries had gone on in a deeper way, leading also to the production of an important amount of capital goods, where the qualitative and technological improvement is large. This was mainly possible because of the wider domestic markets of these countries. But further growth based on import substitution for the domestic market alone was becoming more and more difficult[1], so that the promotion of exports of manufactures was a very sound policy. Here the op-

[1] For a deeper analysis of the problems created by an import substitution process as development policy see: B. Stecher: "Aspekte der Importsubstitution und Exportdiversifizierung im Entwicklungsprozeß ausgewählter Länder: Chile, Südkorea, Mexico" in: Die Weltwirtschaft, 1971, Heft 1, und Jose A. Datas-Panero: "Importsubstitution" in Finanzierung und Entwicklung, 8. Jahrgang, Heft 3, September 1971.

portunity to expand exports to the partner countries of the free trade area was the nearest possible opportunity to be covered with success, because of the elimination of trade barriers within the union. Therefore, the principal aim of these three big countries was to expand trade.

The stagnation of the integration process within Lafta should be then observed as a natural development, if we consider the spirit with which it was originally conceived. The aim, that lead to the creation of Lafta was the need of the countries of the southern cone of Latin America to legalize before Gatt their existing trade arrangements, which were clearly discriminating against third countries (see paragraph 2).

Taking this aim into consideration, Lafta developed itself as a too ambitious program, covering an extremely big geographical area and including countries with the most different sizes and development stages. Since the practical intention of Lafta would concentrate almost exclusively in the commercial aspects, conflicts between different groups of countries, characterized by their respective development stage were impossible to prevent. This has been the constant crisis in which Lafta has been living.

The three big, Argentina, Brazil and Mexico, had better possibilities to become exporters of manufactures, due to their more advanced industrialization stage[1]. The medium sized and small countries on the other hand, with the exception of Chile, which started their industrialization processes after WW II, had not yet reached a manufacturing base capable to develop competitive export industries through trade liberalization. To switch to export promotion of manufactures is, therefore, more problematic for them, so that an integration process based mainly on trade expansion would be disadvantageous for them. On account of this, a closer cooperation in the form of establishing industrial complexes that would produce on a regional scale, specially for products that need bigger production scales to be competitive in the international markets, like capital goods and which are the main import burden of these countries is necessary.

The development in this direction was slowed down mainly for the following reasons:

- influential circles within the big countries considered it unwise to build up competition from the smaller countries,
- since the foundation of Lafta, the international market for Latin American primary products developed favourably, which lessened the need for economic integration,
- external aid flowed abundantly on a bilateral basis into these countries during the sixties, fomenting national oriented industrial programs in each country, therefore, leading to parallel developments of the industrial sectors.

This development hit specially the smaller members, which - as we have seen before - needed the additional market they hoped to gain from the integration process within Lafta.

10. Even if intra-Lafta trade has recovered in recent years, growing at a much faster rate than extra-area exports (Table IV), this development does not seem to have been of great assistance to the small and medium sized countries.

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[1] These three countries supplied during the period 1962-67, 65, 3% of total finished and semi-finished products traded within Lafta. showing an increasing trend along the period (see Table VII).

Table IV: Lafta: Foreign Trade 1966-69
(fob, in %)

	Inter-area exports (growth rate)	Extra-area exports (growth rate)
1966	3.9	6.3
1967	-2.8	1.1
1968	17.3	1.9
1969 (a)	18.0	9.9

(a) Estimate given by Lafta Secretariat

Source: Socio Economic Progress in Latin America, Bid, Annual Report 1970, p. 37.

Looking at Table V, we can see that trade development through Lafta has benefited to a great extent the three big (Argentina, Brazil and Mexico), mainly at the expense of the Andean countries: Bolivia, Chile, Colombia, Ecuador and Peru.

This process should, however, be observed as a "natural" process, if we consider, that this integration scheme was almost exclusively based on trade liberalization between countries of different economic strength, whereby the more developed ones have had the greatest advantage. On the other hand, since free capital movements between the participating countries were not part of the agreement, these movements were dependent on the very restrictive regulations of each of the participating countries. Therefore, no compensating movements in the capital balance in favour of the smaller countries can be observed, since investment projects in which capitalists of different member countries participate are very rare.

Table V: Lafta: Trade balance with other Lafta countries
(mill. US-$)

Country	Annual Average Trade Balance 1960-61	1967-68
Argentina	- 25.3	83.1
Bolivia	- 2.6	- 5.7
Brazil	- 60.3	- 35.5
Chile	- 46.7	- 76.8
Colombia	- 2.4	- 8.0
Ecuador	0.8	- 8.6
Mexico	6.6	17.7
Paraguay	- 2.5	- 3.5
Peru	10.2	- 53.4
Uruguay	- 41.7	- 27.8
Venezuela	163.9	118.6

Source: Socio Economic Progress in Latin America, Annual Report, 1969, p. 55.

The regional trade share of the three big has remained at about 65 % of the total, tending to increase in recent years (Table VI), which shows once again that Lafta has been benefiting to a greater extent those big partners at the expense of the smaller ones, specially Ecuador, Paraguay and Uruguay.

Table VI: Inter Latin American trade figures (percentage share by country groups)

Year	Argentina, Brazil and Mexico	Colombia, Chile and Peru	Ecuador, Paraguay and Uruguay
1951-61	66.0	23.3	10.7
1957-61	66.0	24.5	9.5
1959-61	63.2	27.5	9.3
1961) Lafta	57.3	31.4	10.8
1962)	60.9	30.2	8.9
1963)	59.3	32.4	8.3
1964)	61.5	29.1	8.9
1965)	67.0	26.0	7.0
1966)	62.3	29.0	8.7
1967)	63.3	28.2	8.5
1968)	65.0	26.9	8.1

Source: Anuario de los paises de la Alalc, 1969, Instituto de Publicaciones y Estadísticas S.A., Buenos Aires, p. 32.

Moreover, trade of finished and semifinished products, which grew at a quite fast rate during the period 1962-67, has been increasingly supplied by Argentina, Brazil and Mexico (Table VII). This is another proof for the competitive superiority caused by the higher development of the industrial sectors in these countries.

Table VII: Trade in finished and semi-finished goods during the period 1962-67 between Lafta members

		1962	1963	1964	1965	1966	1967	total 1962-1967
Argentina, Brazil and Mexico	mill. US $	73, 0	106, 7	160, 0	203, 5	229, 7	231, 6	1.004, 4
	percent	55, 7%	59, 1%	61, 5%	65,6%	68, 4%	68, 3%	65, 3%
Rest of Lafta	mill. US $	40, 2	73, 8	100, 0	106, 6	106, 0	107, 6	534, 3
	percent	44, 3%	40, 9%	38, 5%	34, 4%	31, 6%	31, 7%	34, 7%

Source: El comercio exterior de la Alalc, July 1969, CEP 1161, Alalc, p. 27.

11. Pearson[1], who made a calculation of the export stimulation attributable to the existence of Lafta, states that export stimulation of nontraditional goods in relation to total exports has benefited particularly Paraguay, Argentina, Mexico and Chile. Industrial export stimulation (industrial goods are those included in sections 5-8 of the SITC), has benefited especially Chile, Mexico, Brazil and Colombia. But in general, neither the larger countries (Mexico, Argentina, Brazil) nor the more industrialized (Argentina, Chile, Mexico) seem to have gained disproportionately. In conclusion, Pearson says that "observing the development contribution of integration in a multi-dimensional framework of growth, industrialization and export diversification, the observed pattern of reciprocity shows considerably less dispersion than otherwise might have been expected". The observations that little dispersion has taken place means at the same time that the marked disequilibrium with which the Lafta experiment was started has been maintained. According to the data presented here, one can even conclude that the disequilibrium has been aggravated. This can certainly not be called a very positive achievement of Lafta.

The different economic situation of the Lafta members: one of the reasons for the small success of the liberalization process of Lafta

12. An explanation for this phenomenon might be found in the different economic situation of the Lafta countries.

The members of Lafta have been and still are in very different development stages and therefore, show a wide scale of GDP's and incomes per capita (as can be seen from Table I and Appendix I). Since we are occupied here with the Andean countries (Bolivia, Chile, Colombia, Ecuador and Peru), it will suffice to contrast these states with the three big ones (Argentina, Brazil and Mexico), in order to have an impression of the problem.

13. The Andean countries, as compared with Latin America as a whole, comprise 19.8% of the population, 22.8% of the surface, 23.2% of the exports and 23.5% of the imports[2]. The GDP of the group in 1968 amounted to approximately 20,000 million dollars, that is 17.5% of the total GDP of Latin America. Compared to the big partners of Lafta, this equalled more or less the GDP of Argentina and was smaller than that of Brazil and Mexico by 39% and 51% respectively. The share of each of the Andean countries of the GDP of the whole region is as follows: Colombia 36.1%, Chile 27.9%, Peru 24.0%, Ecuador 8.0% and Bolivia 4.1%, so that quite appreciable differences between this group of countries can also be observed. This is mainly related with the respective size of their economies. But differences in the development stage between these countries can also be seen (Table VIII), where Bolivia and Ecuador range in the last positions.

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[1] Ch. Pearson: "Evaluating integration among less developed countries. Lafta as a case study." In: Journal of Common Market Studies, Oxford 8. 1970.

[2] This and the following data correspond to the year 1968 and were taken from: "Antecedentes para el estudio de los problemas de desarrollo en la Subregion Andina", Cepal, May, 1970.

Table VIII: Andean Countries: Principal economic indicators, 1970

	Bolivia	Ecuador	Colombia	Chile	Peru	Total
GDP (1)	900	1, 800	8, 000	6, 000	5, 100	21, 800
Annual average growth rate of GDP, 1960-69 (2)	5, 4 %	4, 5 %	5, 0 %	4, 5 %	5, 1 %	
GDP per capita (3)	200	290	360	620	380	390
Gross Industrial Product (4)	120	300	1, 500	1, 600	1, 100	4, 620
Gross Ind. Prod. /GDP	13, 3 %	16, 6 %	18, 7 %	26, 6 %	21, 5 %	21, 1 %
Total exports (5)	180	230	910	1, 170	1, 060	3, 550
Total exports/ GDP	20, 0 %	12, 8 %	11, 4 %	19, 5 %	20, 7 %	16, 2 %

(1) in million US- $ of 1960
(2) taken from table I
(3) in US- $ of 1960
(4) in million US- $ of 1960
(5) in million US- $ of 1960

Source: La Subregion Andina, potencial industrial y mecanismos básicos de integración, p. 2.

14. This group of countries can be divided into two, one with an important agricultural sector (Colombia and Ecuador) and one with an important mining sector (Chile, Peru and Bolivia). The mining sector in the Andean countries is very important (6.2% of gross product in 1968, compared with 4.2% in Latin America), these countries being the main producers (70% - 100%) of several minerals in Latin America, like copper, tin, nitrate, molybden, tungsten, bismuth and antimony.

The industrial sector of the group has risen in importance (18.8% in 1960 and 20.9% in 1968, Appendix I), but compared with the other big countries of Lafta it shows a relative delay in its development. The production of this sector in the Andean subregion amounts to 63% of that of Mexicò and 55% to 60% of either Argentina or Brazil. The respective share of the various countries in the subregion of this sector was between 31% and 34% each for Colombia and Chile, 25% for Peru, 6% for Ecuador and 3% for Bolivia.

The development of the industrial structure of the Andean countries has lost dynamism in some important sectors during recent years. While in the period from 1960-65 the sector of basic services grew by 9%, the manufacturing sector by 7% and the mining sector by 4, 2% annually, in the period from 1965-70, the rate of growth fell to 4, 8%, 5, 3% and 4, 0% respectively[1]. But a recovery of the manufacturing sector was evident in almost every country in 1970.

15. Table IX shows that the sectors of capital goods and durables are relatively less developed in the Andean countries. This is a direct result of the size of the individual markets, where economies of scale are not attainable. This has been one of the main

[1] Ilpes, Avance hacia la formulación de una estrategia regional de desarrollo. Volúmen II, p. 5, 1970.

problems of these smaller countries, but was not observed in Argentina, Brazil or Mexico, where the domestic markets are more extensive. The group of metal mechanics has a share of only 14% as compared with 20% - 30% in Argentina, Brazil or Mexico.

The metal-mechanical industry is mainly occupied with the production of capital goods, where the smaller countries have the greatest disadvantage. This difference in the level of development is not as noticeable in the sector of intermediate goods, where the percentage share comes nearer to the other big countries of Lafta.

Table IX: Andean Group: Structure of the manufacturing production (1968)

Country	Structure of Manufacturing Production %		
	Industries of consumer non durable goods (a)	Industries of intermediate goods (b)	Metal mechanical industries (c)
Bolivia	68.0	17.0	15.0
Colombia	61.6	25.5	12.9
Chile	46.3	38.3	15.4
Ecuador	64.0	21.0	15.0
Peru	58.4	27.9	13.7
Andean Group	55.8	30.0	14.2
Argentina	39.9	30.4	29.6
Brazil	41.8	28.0 (d)	30.2 (e)
Mexico	45.1	34.2	20.7
Latin America	-	-	-

(a) I.S.I.C.: food, beverages and tobacco (20 to 22); textiles (23); shoes and clothing (24); wood and furniture (25, 26); printing, editorials and connected industries (28); leather, products of leather and furs (29); diverse manufactures (39).
(b) Paper and cellulose (27); rubber (30); chemicals and derivates of petroleum (31, 32); non metallic mineral products (33); basic metallic industries (34).
(c) Metallic products (35); machinery, electric equipment, transport equipment (36 to 38).
(d) Excludes basic metallic industries (34).
(e) Includes basic metallic industries (34).

Source: Antecedentes para el estudio de los problemas de desarrollo de la Subregion Andina, Cepal, 1970, p. 83.

16. The import coefficient is yet another indicator of the fact that the markets of the Andean countries are insufficient compared to those of Mexico, Brazil and Argentina. This coefficient is higher for the Andean group than for Argentina, Brazil or Mexico. It is measured as a percentage of imports in the total supply of goods and services, that is GDP plus imports. The figures for 1968 are as follows: Andean countries (13.1%), Latin America (10.0%), Argentina (6.7%), Brazil (7.1%), Mexico (7.7%) and Central America (19.9%)[1]. While Argentina, Brazil and Mexico have constantly reduced their

[1] Antecedentes para el estudio de los problemas de desarrollo de la Subregion Andina, p. 54.

import coefficients over time, the reverse has been the case for the Andean Region (1950: 11.5%, 1968: 13.1%).

This development can be explained in part by the size of the respective domestic markets and the consequent limit set for the import substituting process for products that require a large production scale and more complicated technologies.

17. With regard to exports, no marked structural difference can be observed between the Andean countries and the three big. All of them depend to a large extent on exports of a small number of primary goods, with the exception of Peru and Mexico, who have a more diversified export structure (Table X).

Table X: Export structure 1969

Argentina	Mill. US $	%	
Wheat	138.5	8.6)	59.3%
Corn	194.6	12.1)	
Meat	432.8	26.8)	
Wool	94.2	5.8)	
Hides Skins	96.6	6.0)	
Total	1.612.1	100.0	

Bolivia	Mill. US $	%	
Tin	102.5	49.0)	67.8%
Tungsten	11.1	5.3)	
Lead	6.8	3.2)	
Silver	10.8	5.1)	
Antimony	11.0	5.2)	
Total	209.3	100.0	

Brazil	Mill. US $	%	
Coffee	813.0	35.1)	54.4%
Cotton	196.0	8.5)	
Cacao	105.0	4.5)	
Iron Ore	147.0	6.3)	
Total	2.311.0	100.0	

Chile	Mill. US $	%	
Copper	810.4	75.7)	84.2%
Nitrates	20.3	1.9)	
Iron Ore	70.9	6.6)	
Total	1.069.2	100.0	

Colombia	Mill. US $	%	
Coffee	343.9	56.6)	67.1%
Petroleum	56.7	9.3)	
Value of Gold Product	7.7	1.2)	
Total	607.5	100.0	

Ecuador	Mill. US $	%	
Bananas	97.6	53.4)	91.2%
Coffee	26.6	14.5)	
Total	182.8	100.0	

Mexico	Mill. Pesos	%	
Cotton	2.450	13.7)	34.9%
Coffee	924	5.1)	
Lead	285	1.6)	
Copper	121	0.6)	
Zinc	634	3.5)	
Sugar	1.298	7.2)	
Shrimp	572	3.2)	
Total	17.874	100.0	

Peru	Mill. Soles	%	
Fishmeal	7.747	23.1)	91.2%
Cotton	2.522	7.5)	
Sugar	1.522	4.5)	
Lead	1.337	4.0)	
Copper	10.038	30.0)	
Silver	2.221	6.6)	
Iron Ore	2.550	7.6)	
Coffee	1.165	3.5)	
Zinc	1.505	4.4)	
Total	33.433	100.0	

Source: I.F.S., June, 1971.

That the exports are composed of a small number of primary goods follows from the role that these countries played in colonial times, where the most important economic activity was to supply the metropolis (Spain and Europe in general) with primary goods. Later on, the industrialization process of the Latin American countries, which was mainly inward-looking and based on import substitution, did not contribute to diversify exports, so that these countries remained depending on exports of a few primary goods. For these goods, the size of the domestic market does not play a decisive role to allow its exportation, while for manufactures the home market can be important when it enables the industry to compete on an international scale, through the provision of economies of scale, full utilization of production capacity, etc. In this respect, if we compare the exports of manufactures of the Andean countries in 1967 with those of Argentina, for example, we can realize how unimportant they are. Argentina, with tital exports of 1, 465 million US-$, exported 305 million in manufactures, while the Andean countries exported manufactures of only 295 million from total exports of 2, 505 million US-$[1]. Here the size of the domestic market seems to have played an important role.

Efforts of Lafta to deal with the problems raised by the different development stages of the member countries

18. Since it was apparent from the start that trade liberalization alone would not suffice to bring about the integration of the region, some measures were taken in order to harmonize the economic development of the member countries. The Treaty included provisions for coordination of agricultural development and agricultural commodity trade policies, coordination of industrial development policies and negotiations of mutual agreements on complementarity by industrial sectors.

Of all these provisions, only those regarding mutual agreements on complementarity by industrial sectors were implemented. Neither the coordination of agricultural development nor that of agricultural commodity trade policies nor that of industrial development policies were successfully negotiated. Only in the regional financial integration some success can be recorded. A council for financial and monetary policy was constituted, as well as the meeting of the presidents of the Central Banks. As a result of this, the following achievements can be reported:

- concessions of reciprocal credits between the members through the Central Banks of the participating countries,
- multilateral compensation agreements,

both under conditions of convertibility and transferability. Also, an agreement upon sea transport was reached, but has so far not entered into practice.

19. As far as complementarity agreements ("acuerdos de complementación") are concerned, at the beginning of 1968 there were four such agreements in operation and by 1969 there were already eight. These agreements are intended to rationalize production in the different countries. Some of the production processes are concentrated in one of the member states, with the aim to produce for the whole region. They are supplemented by special tariff relationships for the trade in the products concerned. At first, this kind of agreement faced the problem of the clause of the most favoured nation treatment, that would have allowed all other Lafta members to enjoy the benefits without any concomitant responsibilities. A solution of this problem was found at the fourth conference of Lafta in 1964, where conformity with Gatt agreements was reached

[1] Antecedentes para el estudio de los problemas de desarrollo de la Subregion Andina, Cepal, May 1970.

by allowing other non-signatory Lafta members to join the agreement, so long as compensation was made to the charter members of complementarity agreements. The only members excused from compensation payments were Bolivia, Ecuador and Paraguay, who were designated as less developed. Till July 1969, the following agreements had been signed:

1. Card perforating and statistical machines (Argentina, Brazil, Chile, Uruguay through IBM)
2. Electronic tubes (Argentina, Brazil, Chile, Mexico, Uruguay)
3. Glass for technical use (Argentina, Mexico)
4. Electric household machines (Brazil, Uruguay, Argentina)
5. Electronic components (Brazil, Uruguay)
6. Chemical Industry (Argentina, Brazil, Chile, Colombia, Mexico, Peru, Uruguay and Venezuela)
7. Petrochemical products (Bolivia, Chile, Colombia, Peru)
8. Petrochemical derivates (Argentina, Mexico, Uruguay, Venezuela).

20. These types of agreements could have been a very useful tool in diversifying the production structure in a regional scale through the creation first of a circulation sphere for products and later of a production sphere. Specialization in order to produce for the integrated market can lead to optimal plant sizes and can also concentrate investment and circulation means, in other words, it may create the necessary basis and external economies for new development poles. This would modify the structure of the industrial sectors and could also be a potential growth rate accelerator specially for small countries, through the possibility to specialize in a dynamic industrial sector producing for the whole region.

Unfortunately, these agreements didn't work, specially because of conflict of interests between the countries and lack of cooperation between the state controlled enterprises. Moreover, the agreements concluded concern only sectors which are presently not very important and are mainly controlled by foreign companies. Finally, since there were notorious differences in the level of development between the members of Lafta, the less developed ones would not have shifted their sources of supply to other countries of the region, unless they received a corresponding advantage in return.

21. In order to remedy this situation to some extent, special treatment towards the less developed members (Bolivia, Paraguay and Ecuador) was granted. They were allowed to reduce their customs duties and trade restrictions at a slower pace than the other countries and they were given prospects of technical and financial help. Since these prospects were not put into practice, the rest was obviously insufficient to guarantee a balanced development, since especially the less developed members would have to make the greatest efforts to diversify their production structure in order to improve their weak competitive position. So, finally in 1963, a special program to grant financial aid and technical assistance to the less developed members was instituted, but never entered into practice.

For the middle sized countries, or those with so-called insufficient markets, who claimed of lack of benefits from integration[1], an Industrial Development Advisory Commission was created to give priority to the elaboration or regional industrial projects which might be established in their territories, but no concrete results have so far been obtained.

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[1] Chile, Colombia and Uruguay have had permanent deficits with the zone and no improvement for their inadequate production structures was envisaged, as long as the integration program was limited to trade liberalization.

As the expansion of intra-regional trade became stagnant, a meeting of the American Presidents was held in 1967 as an effort to reach an agreement to overcome the purely commercial character of Lafta. The Declaration of the Presidents in Punta del Este claimed to implement a Latin American common market by 1985. Therefore, the development of Lafta as well as of the Central American Common Market (CACM) had to be improved, specially by multinational projects and continued trade liberalization. But no further progress was reported and difficulties arose at the Council of Ministers of Lafta, attributable once again to conflicts of interests caused by the big differences in the economic structures of the participating countries.

22. Another cause for the stagnation of Lafta was the position of the United States, who never really supported Lafta. At the beginning, they were suspicious because Lafta started as an indea of Ecla, which is ideologically not fully accepted. During the Conference of the Presidents in Punta del Este in 1967, the United States offered more help in the form of multilateral aid, but this was never realized. On the other hand, the Latin American countries were used to bilateral help and they didn't exactly favour a multilateral program, since they thought that bilaterally they would get more individual help.

Finally, there was the problem that foreign investments were in permanent conflict with the national enterprises, since they feared their technological and entrepreneurial superiority. As long as there was no common position with respect to foreign investments and as long as the fear existed that foreign companies would become established in the more developed members of Lafta, each country followed its own rules towards foreign investments, which differed greatly from country to country. In general, it can be said that Lafta lacked the machinery to carry sufficient weight with national governments, since the Council of Ministers didn't have sufficient power to be an effective policy-making body. Also, national governments continued to think in autarchic terms, not supporting any action until they had the assurance of concessions in return.

23. For all these reasons, the operation of Lafta has not been very successful and is biased in favour of the more developed countries, and the special measures in favour of the less developed members have clearly not been sufficient. The public and the governments failed to appreciate the potential benefits of the area. The "countries were unwilling to coordinate their development plans, reduce their sovereignity and organize investment on the basis of a potentially larger market"[1]. Since the main reason for this attitude is again the big differences in development between the partners, clearly, the success of Lafta depended upon reducing these differences in economic development.

The foundation of the Andean Group

24. As a vehicle to this end, a closer collaboration between the group of medium sized and less developed members of Lafta appeared to be useful. As is expected from all integration processes, this closer collaboration was designed to additionally accelerate the growth of the partner countries.

The following countries, which are situated in the Andes, joined in such an effort:

Bolivia, Chile, Colombia, Ecuador and Peru.

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[1] K. Griffin, "The Potential Benefits of Latin American Integration", in: Inter-American Economic Affairs, Vol. 17, No. 4, 1964, p. 5.

25. The first step to promote such a subregional integration was the Declaration of Bogota in 1966, when the Presidents of Chile, Colombia and Venezuela and the delegates of Ecuador and Peru, proposed the creation of a subregional agreement, the creation of a Joint Commission to develop it and the creation of a development corporation, as the main tools to achieve a balanced economic development of the region. Further, in 1967, the Meeting of the American Presidents in Punta del Este, reinforced the importance of the subregional agreements as a means of achieving the economic integration of Latin America.

Several meetings of the Joint Commission, formed during the Declaration of Bogota, followed, in which the government experts and entrepreneurs discussed and formulated the Subregional Integration Agreement. On 7th February, 1968 the plenipotentiary representatives of Bolivia, Colombia, Chile, Ecuador, Peru and Venezuela signed the agreement creating the Andean Development Corporation. Finally, during the sixth meeting of the Joint Commission, the Subregional Integration Agreement was signed. The compatibility of this agreement with the Treaty of Montevideo was approved by the Permanent Executive Committee of Lafta on 9th July, 1969. This agreement was ratified by the governments of Bolivia, Chile, Colombia, Ecuador and Peru, but not by Venezuela, Venezuela had to give way to the pressure of its national industry, who argued that it had higher costs of production due to higher salaries and price levels, so that it would not be able to compete. In addition, the process of industrialization started later in Venezuela, so that the entrepreneurs believed that they still have a wide scope of import substitution without having to feel the restraint of the domestic market. Special trade agreements with the USA make the case of Venezuela also different. In this way, an important market and supplies of primary goods like petroleum and iron ore were withheld from the Andean Group. But Venezuela is at least participating in the Andean Development Corporation. It is also an observer in the Andean Group and in December 1971 a decision was taken by the group to leave the doors open for negotiations with Venezuela to join.

26. The essential objectives of the Subregional Agreement are to raise continuously the standard of living of the inhabitants of the region by means of a balanced economic development between the member countries, the final aim being the easing of its participation in the process foreseen by the Treaty of Montevideo and the establishment of favourable conditions for the conversion of Lafta into a common market.

Thus, although the subregion constitutes an economic unity with its own life, the obligations with the rest of the members of Lafta remain valid.

The liberalization program of the Andean Group

27. In paragraphs 8 and 9, it was shown that the trade liberalization within Lafta didn't progress as it was originally planned. The main reason for this failure was that the respective rules of the Treaty of Montevideo were not stringent enough, because there was no automatism leading to a complete abolishment of the trade obstacles between the members. At least the experience of the EEC (European Economic Community) leads to the conclusion that such an automatism is a kind of guarantee that the goal of trade liberalization will finally be reached[1]. Both the positive experience of the EEC and the negative experience of Lafta lead the authors of the Treaty of Cartagena to imitate the EEC practice.

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[1] The CACM (Central American Common Market) had experimented successfully with the same procedure, although for other reasons it didn't succeed.

28. Since the different external tariffs of Lafta have proved an obstacle to the liberalization of the trade flows within the association, the Andean Group relied again on the experience of the EEC, in this case, with a common external tariff. By founding a customs union by means of applying a common external tariff, the EEC and to a certain extent the CACM have avoided the pitfalls of finding and putting into effect common rules of origin.

29. The formation of the common market is to be achieved by the liberalization program of trade between the member states and by the establishment of a common external tariff, so that in the end all duties and restrictions to trade will be eliminated and a common protection against third countries will be assured.

The liberalization program is universal, automatic and irrevocable. It leads to the elimination of all kinds of restrictions by the 31st December, 1970 and to the total abolition of duties and tariffs by the 31st December, 1980. By restrictions are understood, "all measures of administrative, financial or exchange rate nature"[1] by which a country can unilaterally restrict or make trade between the partners difficult.

30. There are different degrees of liberalization for different groups of products:

a) Products that are included in Sectorial Programs of Industrial Development are to be liberated as stated in each program[2].

b) Products which are or shall be included in the Common List of the Treaty of Montevideo[3] have to be completely liberated 180 days after the entering into force of the Agreement.

c) Products that are presently not produced in any of the countries of the subregion[4] and which are not already included in Sectorial Programs of Industrial Development had to be and have been liberated in general by the 28th February, 1971. Some of these products have been reserved to be produced exclusively by Bolivia and Ecuador, the rest being completely liberated.

d) The products not included in any of the abovementioned categories have to be gradually liberated at a rate of 10% every year, till 31st December, 1980[5]. The starting point for Chile, Colombia and Peru is the lowest tariff of one of these countries at 31st, December, 1970. This starting point cannot be higher than 100% of the cif value of the product concerned. For Bolivia and Ecuador, the automatic tariff reduction program starts on 31st December, 1976 from the level of their respective national tariffs[6]. However, they are free to start their tariff reduction program at an earlier date.

For a group of products presently produced by Bolivia and Ecuador, the reduction of tariffs proceeds faster than 10% annually. The other member countries eliminate all kinds of restrictions until 31st January, 1971. The tariffs are abolished in three stages: 40% reduction on 31st December, 1971, 30% reduction on 31st December, 1972 and 30% reduction on 31st December, 1973.

Also, as from 31st December, 1970, the member countries have eleminated all restrictions on trade (see paragraph 29) among themselves[7], with the exception of

[1] Article 42 of the Treaty of Cartagena.
[2] Article 46 to 48 of the Treaty of Cartagena.
[3] Article 49 of the Treaty of Cartagena.
[4] Articles 50 and 51 of the Treaty of Cartagena.
[5] Article 52 of the Treaty of Cartagena.
[6] Article 100 of the Treaty of Cartagena.
[7] Article 46 of the Treaty of Cartagena.

the Sectorial Programs of Industrial Development, which are freed as stated in each program. Bolivia and Ecuador eliminate their restrictions as soon as they start with their liberalization program, that is to say, 31st December, 1976.

31. From the remaining products that enter into an automatic liberalization program, the member countries can exclude a certain number of products already produced in the subregion during a set period of time, that in general ends by 1985. These products do not benefit from the advantages created by the Agreement but can be liberated at any time. Chile and Colombia can exclude a number of products that may not exceed 250 items of the Nabalalc classification. For Peru the number is 450, with the obligation to reduce that number to 350 at the end of 1974 and to 250 at the end of 1979. For Bolivia and Ecuador the number is 600. No product included in the Common List of Lafta can be excepted.

So, from the original 3400 items included in the automatic tariff reduction system, almost 800 have been affected by the exception lists. The member states of the Andean Group had to decide up to 31st December, 1970 whether they intended to use all or only part of the exceptions which were possible, according to Article 55 of the Treaty of Cartagena.

Since two or the three countries, Colombia, Chile and Peru, have simultaneously excluded a number of identical products, 122 items have been transitorilly completely excluded from the liberalization advantages given by the Treaty of Cartagena. Half of them correspond to textiles, a good part to metalurgical and siderurgical products and the rest to other different products. It is true that these items presently represent only about 3% of the exports of the Andean countries, but on the other side, the prospects to increase and diversify the exports are considerably limited by these measures. For example, the textile industry is a sector which is particularly prone to be considerable extended during the development process.

For a more detailed description of the products included in each category of the liberalization program, see Appendix II.

32. The common external tariff is another essential element necessary to complete the liberalization program. It has to be applied by 31st December, 1980[1]. However, until 31st December, 1975 a minimum common external tariff has to be in operation[2]. From 31st December, 1971, the member countries which were below the minimum have to approximate their external tariffs in a linear and automatic way every year, in order to reach the level of the minimum common external tariff by the end of 1975. The members who are above the minimum can remain there. These measures are instituted to guarantee a minimum protection against third countries, establishing a preference margin for the subregional production and stimulating efficiency at the same time. From 31st December, 1976 a gradual and automatic approximation of the common external tariff has to start, to be reached by 1980. - Bolivia and Ecuador, however, are not obliged to adopt the minimum common external tariff (with the exception of the products presently not produced in the subregion, paragraph 30 c)). They will start the approximation of the common external tariff on 31st December, 1976 to reach it by 31st December, 1985[3]. For the Products included in the Common List of Lafta which are already in free circulation in the subregion (paragraph 30 b)) and for the products not produced in the subregion, a common external tariff is already in operation.

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[1] Article 61 of the Treaty of Cartagena.
[2] Article 64 of the Treaty of Cartagena.
[3] Article 104 of the Treaty of Cartagena.

33. As a consequence of the whole liberalization program, 90% of the present exports of each country to the subregion profit from bigger markets than before[1]. In this calculation the products incorporated in the Common List of Lafta, which are free from 1st January, 1971 and all those included in the automatic tariff reduction system are added. The goods incorporated in the exception lists of at least two of the three countries, Chile, Colombia and Peru are excluded.

But still, in the first stages of perfection of the Andean Region, it seems that almost all these products are affected by sufficiently high tariffs, so as to considerably limit the possibilities of creating new trade flows. Also these products don't have the markets of the five countries, since only from 1976 on, they will have advantages in the markets of Bolivia and Ecuador. It is therefore still too early to judge the success of the liberalization program of the Andean Group. Jet, on account of the methods applied, we can safely predict that the liberalization program in the Andean Group will be more effective than that of Lafta.

34. It should be noted that within the liberalization program special care is taken of the needs of the two less developed partners of the Andean Group. Bolivia and Ecuador have already acquired important advantages (as can be seen from paragraph 30 c.) and d.) and paragraph 32.), which should enable them to accelerate their rates of growth in relation to the other partners. Also, according to Article 106 of the Treaty of Cartagena, special attention is given to technical assistance and the procurement of finance for the instalation of production complexes and plants in Bolivia and Ecuador[2]. In this way, structural shortcomings and insufficiencies of these countries should be alleviated, whereby the Sectorial Programs of Industrial Development can play an important role (see paragraph 30 a.)). This is an important improvement with respect to the situation prevailing in Lafta, since commercial liberalization alone seems not to be sufficient to improve and stimulate growth in developing countries.

The investment program of the Andean Group

35. The investment program of the Andean Group will be mainly based on the Andean Development Corporation (ADC), the common rules adopted towards foreign investments, as well as the Sectorial Programs of Industrial Development (SPID).

The ADC

36. The Andean Development Corporation (constituted on 28th February, 1968 by Bolivia, Colombia, Chile, Ecuador, Peru and Venezuela) will be the main institution for the canalization of financial resources, in order to promote the development of the subregion. It will attract the savings available in the region and guide the external financial resources as well as promote and execute investments needed in the integration process.

The capital of the ADC is provided by shares subscribed by the governments, public, semi-public and private enterprises.

37. The specific tasks of this organization are:

- to make and promote studies in order to identify the new investment opportunities;

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[1] La Subregion Andina: Potencial Industrial y Mecanismos Básicos de Integración, p. 17, Primera reunion de empresarios metalúrgicos de la Subregion Andina, Santiago, Chile, August, 1971.

[2] This should be mainly canalized through the Andean Development Corporation, which will be described below.

- promote the reaching out and mobilization of resources;
- give the necessary technical and financial assistance to prepare and execute multinational or complementary projects;
- obtain internal and external credits;
- promote the organization of enterprises, their expansion, modernization or conversion.

A special feature of the ADC is the ability to subscribe shares or to otherwise participate in the enterprises it is promoting.

Close relations of the ADC with the organs of the Cartagena Agreement are foreseen. The common objectives of both organizations will prevent duplication of efforts and assure that the activities financed are the most desirable for the subregional development. Also, the abovementioned relationship will facilitate the approval of industrial programs, since the corporation has full capacity to elaborate and promote projects without the often bureaucratic process of the "Junta", facilitating in this way the finding out of solutions to the integration process. However, since the ADC is an independent institution, there is still a danger that in cases of lack of agreement between the "Junta" and the ADC, the efforts of both institutions may work in opposite directions, neutralizing the development aim or affecting adversely the distribution of the production within the subregion.

38. The creation of this corporation is an improvement with respect to Lafta, where no such an institution was called into life to direct and promote investments in order to accelerate the integration process and to secure a balanced development[1].

As indicated, Venezuela is a member of the ADC. This participation is a very positive thing, since through common projects, in which Venezuela participates together with members of the Andean Group, it will become increasingly linked with them, a situation that should ease the way of Venezuela to becoming a member of the group.

Regulations of foreign investments

39. Another important tool, apart from the ADC, to direct investments within the Andean countries, is the decision upon the common treatment of foreign capitals, as well as that of trade marks, patents, royalties and licences. The regulations to implement this decision were adopted on 31st December, 1970 and have been already ratified by the five countries.

40. The most important regulations for foreign investments, adopted by the five countries, are as follows:

i. Prohibition for foreign capital to operate in public services, telephones, telecommunications, broadcasting, television stations, magazines and newspapers, banks, insurance companies financial companies and internal transport.

ii. If the foreign companies want to benefit from the integration they are compelled to transfer not less than 51% of their shares to national investors in a time period of 15 years for Chile, Colombia and Peru, and 20 years for Ecuador and Bolivia. This has to start within three years after the proper authorization has been granted.

   For the Sectorial Programs of Industrial and Agricultural Development, similar periods will be granted.

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[1] In so far, the Andean Group followed the successful example of the CACM, where the Central American Bank for Economic Integration was instituted.

These companies will have access to the internal credit, but only short-term credit and in very exceptional circumstances. They will not have the right to incorporate the value of technology as capital investment, but are allowed to deduct the royalties from the taxes to be paid.

There also has to be a progressive incorporation of nationals to the operation of the company.

iii. Remittance of benefits is limited to 14%. Re-exportation of the invested capital is also granted.

iv. Direct foreign investments will be prohibited in fields that are adequately operated by national firms.

The purchase of national firms will also be prohibited and only granted in special cases of need, to prevent their closing down. In these cases, nationals have to keep at least 51% of the shares and the foreign investor has to sell its share in a time period of a maximum of ten years.

v. There will be special regulations for the incorporation of technologies from third countries to promote their own technologies.

vi. The foreign companies that establish themselves after 1st January, 1971 are compelled to transfer 51% of their shares to nationals, in the same time periods as stated under point i.

vii. There shall be no preference for foreign capital over national capital.

viii. Export restricting clauses, as well as any restrictive practice between parent company and subsidiary, regarding to patents, licences, purchase of inputs, etc. are prohibited.

ix. During the first ten years of operation of the Treaty, foreign companies are allowed to exploit natural resources, with the condition that the contract does not exceed twenty years.

Some slight changes were introduced to the original formulation, the most important points being that foreign companies selling their shares to local interests do not have to first offer these shares to the state; foreign companies are now allowed to borrow some money on the local markets in a more liberal way; and fade out conditions for foreigners buying up local bankrupt companies have been eased.

Also, foreign companies must register with the local competent body and by the end of the year (1971) they will have to have registered contracts by which they commit themselves to selling out to locals under an agreed schedule.

41. This is the first time that a group of countries which planned to integrate their economies have decided to grant identical treatment to foreign investments. The agreement upon such an important point can be regarded as a very positive step and an improvement with respect to Lafta, since one of the causes of the lack of success within that organization, was the fear of competition of foreign investments and also the competition between the member countries to attract such investments with the most favourable conditions. Because of this, the negotiations to liberate trade within Lafta were greatly hampered, leading at the end to a factual standstill.

The contents of the agreement over foreign investments can be, however, subject of criticism. So, due to the disvestment program new investments may concentrate in activities with low risk and of rapid recuperation, leading to the abandonement of activities technologically more advanced, with higher risk and slow recuperation, therefore, negatively affecting the development prospects of these countries. Also, the prohibition for foreign investments to operate in activities which are considered to be adequately covered by national firms is a very flexible point, which can lead to protective cartels against foreign competition, with the consequent negative effects for the region.

42. In the CACM, the problem of directing foreign investments was even more crucial. Failure to agree upon coordination of economic policies, particularly with the localization of new industries and uniform treatment for foreign capital lead to a competition of the different countries to attract foreign investment and to locate the production plants in their territories. This resulted in an uneven development and the constitution of overcapacities in many plants, where the less developed members are at a disadvantage (Honduras and Nicaragua). Finally, when Nicaragua threatened to withdraw (1969) agreement was reached on a protocol to standardize fiscal incentives to limit competition for foreign investments. But this seems to have been too late, since failure to plan industrialization had already accentuated regional differences to such an extent that the so-called "football war" between El-Salvador and Honduras became possible, which brought the CACM practically to a standstill. Of course, there are other reasons for this state of affairs, specially lack of social reforms.

43. Although the common treatment towards foreign capital adopted by the Andean Group can be regarded as a means of avoiding such a situation, it has been criticized by potential and already established foreign investors, as well as by the national entrepreneurs. At the VII annual Latin American Industrial Congress, held in April, 1971 in Caracas, it was decided by a vast majority to oppose the statute of common treatment of foreign capital adopted by the Andean Group. They warned that a diminution of foreign investments would result from the common rules adopted, investments that are so badly needed for the economic development of these countries, since national saving capacities are not sufficient to cover the investment needs. It was recommended, amongst other things, to define the economic sectors where foreign investments are considered useful, the conditions that should be put to foreign investors and the formulation of a political-economical conception with regard to foreign capital.

44. Indeed, the immediate reaction of foreign investors to the policy of the Andean Group was a delay in the concession of some credits to Peru and the temporary cancelling of several private direct investments in Colombia. In general foreign investors are in an expectant position. This situation has lately induced Ecuador and Bolivia and finally Peru, to make some exceptions, so that the whole common policy is in danger of failing.

Moreover, Peru, who at first threatened to withdraw from the Andean Group if the common treatment of foreign capital was not adopted, thereby pressing Colombia to accept it against the will of its national entrepreneurs, has been precisely one of the countries to make exceptions to this policy. Colombia, consequently, feels itself betrayed and in a difficult position. It is therefore doubtful if this common policy will be able to survive.

So, although the process of regulating foreign investments among developing countries is more and more inevitable, it will have a very slow basis of operation at the beginning and it will take its time till it is able to operate adequately. This is not only the experience of the Andean Group, but can also be deduced from the fact that a recommendation made long ago by ECLA to control foreign investments has only now found a partial application in Latin America[1]. The question is, if a group of countries that wants to regulate foreign investments can be successful as long as there are so many other developing countries where foreign investments encounter almost no restrictions.

Sectorial Programs of Industrial Development

45. Finally, the Sectorial Programs of Industrial Development are another important tool to direct investments in the Andean Region, since they can be regarded as a plan of industrial location, which should secure balanced development between the members. This again is an improvement with respect to the complementarity agreements within Lafta, which lacked norms for the localization of industrial plants, coordination of investments and harmonization of policies. Also, in the CACM, lack of coordination of economic policies as well as of localization of industrial plants contributed to its stagnation. All the features missing in Lafta as well as in CACM are essentials of the industrial programming in the Andean Group.

Measures towards a common strategy of economic development

46. Another important measure in securing a balanced development of the partners in the Andean Group, as well as a fair and adequate allocation of productive resources, is the adoption of a common strategy of development. This strategy should be implemented through global and sectorial programming and by the harmonization of economic policies. The Agreement of the Andean Group includes therefore, some mechanisms to acquire these goals. They refer to:

a) Harmonization of economic policies: before the end of 1971, the general program to implement the Treaty foresees the carrying out of some important measures. They refer to harmonization of legislations for industrial promotion, common rules for multinational companies and the establishment of rules of competition. Specially the harmonization of legislations for industrial promotion[2] is very important in securing a harmonic and accelerated development in equal conditions between the member countries.

b) Industrial programming: this is seen as an essential precondition for the economies of scale, which are expected from the enlarged markets, as well as for the specialization and diversification of the production. Here, the Sectorial Programs of Industrial Development will play an important role, as has been previously noted (see paragraph 45).

c) Agricultural programming: in the agricultural sector, harmonization of policies and coordination of agricultural plans is foreseen, so that it may be possible to adopt a common policy and an indicative plan for the sector.

d) Special measures to accelerate the physical integration of the whole region: this refers mainly to the improvement of the transport facilities, specially for border crossing - Articles 86 to 88 of the Treaty of Cartagena.

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[1] Mexico successfully instituted regulations for foreign investments long ago (1939). Many points of those regulations have now been adopted by the Andean Group. However, in the case of Mexico it concerned only one country, while here a group of countries is involved, whereby a common agreement is much more difficult.

[2] Lack of agreement on this point contributed to the stagnation in the CACM.

47. Apart from the measures mentioned, more is needed to bring about an effective integration process, namely constant harmonization and coordination of economic policies. On this delicate subject, however, not much progress can be reported. To make a beginning, some working parties have been created by the Commission of the Treaty of Cartagena to formulate recommendations to the "Junta". These working parties refer to the following subjects:
- methods and techniques of planning
- monetary and international payment matters
- financial aspects
- fiscal policy
- commercial policy.

With regard to the harmonization of foreign trade instruments and the exchange rate, fiscal and financial policies, the "Junta" has already started the necessary studies so as to come to a decision, during 1972.

Institutional organization of the Andean Group

48. In order to facilitate the putting into effect of the common policies, the Cartagena Agreement sought to provide an appropriate institutional set-up. The institutions are established in such a way, so that the interests of each country and the relevant groups can be balanced with subregional interests. Therefore, there are two principal organs, the Commission and the "Junta" and two auxiliary organs, the Consulting Committee and the Social and Economic Assisting Committee.

49. The Commission is the highest organ of the Organization and it is constituted by the plenipotentiary representatives of each government of the member countries. It has the power to take decisions in the following fields (Article 7 of the Treaty of Cartagena)[1]:

a) Formulate the general policy of the Treaty and adopt the necessary measures to fulfill its objectives.
b) Approve the indispensable norms to make the coordination of the development plans and the harmonization of economic policies between the members possible.
c) Appoint and remove the members of the "Junta".
d) Delegate attributions to the "Junta".
e) Approve, disapprove or change the propositions of the "Junta".
f) Supervise the harmonic application of the obligations derived from the Agreement of Cartagena and the Treaty of Montevideo.
g) Approve the annual budget of the "Junta" and fix the contribution of each of the member countries.
h) Dictate its own regulations and those of the other committees and approve those of the "Junta" and its modifications.
i) Propose to the member countries the modifications to the present Agreement.
j) To investigate and solve all the other problems of common interest.

Decisions are taken, as a rule, by a two-thirds majority of the votes. Since there are five member countries, the voting is in reality by a four-fifths majority. Although there are only two less developed members (Bolivia and Ecuador), it is therefore very improbable that their interests will be negatively affected by a majority vote.

50. The "Junta" is the community's technical organ and is in charge of making propositions to the Commission, which has to make the final decision. Its main task is

[1] This is a free translation from Spanish into English.

to project the economic and social development of the region and to supervise the application of the dispositions of the Agreement.

51. The Consulting Committee is the binding organ between the "Junta" and each of the member countries. It has to assist the "Junta" and collaborate in the fulfilling of the plans.

52. Finally, the Social and Economic Assisting Committee is constituted by representatives of entrepreneurs and workers of the participating countries.

As can be seen, the institutional side of the Agreement of Cartagena seems to be well organized and sufficient supranational powers are granted, in contrast with the experience of Lafta and the CACM, where the lack of executive power was constantly regarded as a serious handicap.

53. In contrast to the institutions of the Andean Group, the supreme organ of Lafta does not sit permanently. It is The Conference, composed of government representatives, which meets only on special occasions. In theory it may adopt the necessary measures; in practice, however, it can not do very much, since The Conference lacks the necessary special competences[1]. Moreover, the voting is subject to the veto right of one of the eleven members. Only if no negative votes are cast, can the stipulated 2/3 majority take a decision. This means prolonged and difficult negotiations before each voting act.

Soon it was discovered that The Conference lacked executive powers[2]. Therefore, in 1965 the Council of Ministers was created, but its powers have proven insufficient.

54. The CACM has a permanent organ, namely the Economic Council. This is an executive organ composed of the Ministers of economy, but without supranational powers. The lack of such powers made it difficult to adopt decisions, where national interests were affected.

Some important problems to be overcome

55. On the way to perfecting the common market between the Andean countries, some important obstacles will have to be overcome. They will be mainly related to the balance of payments, employment, income distribution, transport, price increases, fiscal incomes, etc. To show the magnitude of some of them, we will describe them briefly.

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[1] Article 34 of the Treaty of Montevideo: The Conference is empowered to:
- a) take the necessary steps to carry out the present Treaty and to study the results of its implementation.
- b) promote the negotiations provided for in Article 4 and to assess the results thereof.
- c) approve the Committee's annual budget and to fix the contributions of each contracting party.
- d) to lay down its own rules of procedure and to approve the Committee's rules of procedure.
- e) elect the chairman and two vice-chairman for each session.
- f) appoint the executive secretary of the Committee.
- g) deal with other business of common interest.

[2] Although there is a Standing Executive Committee, it has only the task of preparing the meetings of The Conference.

56. Balance of payments: the balance of payments situation of these countries is very unstable and highly dependent on the price fluctuations for their primary exports. The services balance is negative by a big amount and constitutes an important foreign exchange drainage. Also the investment income, composed of interests on private and public loans and earnings of foreign direct investment, causes increasingly losses of foreign exchange. There is no hope to reduce this item substantially in the future, since foreign investments are badly needed to rise the investment rate in order to attain a higher growth rate for the economy (from an investment rate of about 18% of GDP in the present to about 25% in the future). Domestic savings are insufficient to cope with these investment needs.

The inflationary rates in the participating countries being quite different, a flexible exchange rate policy is needed, in order to preserve the equilibrium and guarantee fair competition within the group.

57. Employment and income distribution: population growth in Latin America is one of the highest in the world (about 3% annually) and the Andean Region is not an exception to it (see Table XI).

Table XI: Cumulative annual rates of growth of population (1965-70) in percentages

Country	%
Bolivia	2.4
Chile	2.3
Colombia	3.4
Ecuador	3.4
Peru	3.1
Latin America	2.9

Source: Latin American Demographic Centre (Celade)

This situation creates a big pressure upon the labour market and therefore, necessitates the creation of more and more working places every year. From Tables XII and XIII it can be seen that the total absorption rate of the economies of the Andean countries has not been able to cope with the average growth rate of the working force.

Table XII: Employment Structure by economic sectors 1950-1970 (Average annual growth rates)

	Agri-culture	Mining	Manu-facture	Build-ing	Transport, Communic., Electric., Gas + Water	Other Serv.	Total
Colombia							
1950/55	1.2	3.5	2.5	5.4	4.7	2.6	2.0
1955/60	1.1	1.9	2.2	4.8	4.3	2.5	1.9
1960/65	1.3	2.2	2.6	5.2	4.4	2.7	2.2
1965/70	2.2	0.1	3.0	9.6	2.8	3.1	3.0
Ecuador							
1950/55	2.4	-1.6	2.3	4.9	4.1	3.0	2.6
1955/60	2.3	-3.6	2.4	4.6	3.9	2.8	2.5
1960/65	2.4	-5.6	1.8	5.6	3.8	2.8	2.5
1965/70	1.8	8.0	-0.04	5.0	2.9	3.3	2.1

	Agri-culture	Mining	Manu-facture	Build-ing	Transport, Communic., Electric., Gas + Water	Other Serv.	Total
Peru							
1950/55	0.6	1.6	2.7	4.8	2.8	2.6	1.5
1955/60	1.3	2.3		5.8	3.5	3.1	2.3
1960/65	1.9	2.1	4.2	6.1	4.2	4.1	3.1
1965/70	0.7	1.5	1.8	-2.7	2.3	1.9	1.2
Bolivia							
1950/55	1.5	2.5	3.2	3.3	5.7	4.1	2.2
1955/60	1.4	2.5	3.2	3.3	5.7	4.6	2.2
1960/65	0.9	6.3	7.5	3.3	5.7	3.3	2.3
1965/70	0.1	1.1	7.2	16.6	7.0	3.1	2.2
Chile							
1950/55	0.1	-3.6	0.1	2.8	3.1	1.6	0.8
1955/60	0.9	-0.2	0.3	1.7	1.2	1.1	0.9
1960/65	-0.5	-7.4	6.0	4.5	7.5	2.4	2.4
1965/70	2.1	2.8	0.8	-3.1	0.8	2.2	1.5
Total A.G.							
1950/55	1.1	-0.0	1.9	4.4	3.8	2.4	1.7
1955/60	1.3	1.25	2.1	4.0	3.3	2.4	1.9
1960/65	1.4	0.1	4.0	5.1	5.2	3.0	2.5
1965/70	1.5	1.4	2.2	4.5	2.4	2.6	2.1

Source: elaborated from: Grupo Andino: avance hacia la formulación de una estrategia regional de desarrollo, Vol. II, Ilpes y Cepal, p. 70.

Table XIII: Annual average growth rates of the economic active population during the periods 1960-65 and 1965-70 (in percentages)

Countries	1960-65	1965-70
Colombia	2.95	3.40
Ecuador	3.05	3.25
Peru	3.10	3.15
Bolivia	2.30	2.40
Chile	2.35	2.60
Total (Andean Group)	2.80	3.10

Source: elaborated from: Grupo Andino: avance hacia la formulación de una estrategia regional de desarrollo, Vol. II, Ilpes y Cepal, p. 70.

The inability of the manufacturing and services sectors to absorb a higher rate of workers has lead to a higher absorption rate of the agricultural sector with the years, thus keeping the improvement in productivity low in this sector. So, in order to solve this problem, the growth rate of the whole economy has to be accelerated, whereby the present uneven income distribution is a big disadvantage (see Table XIV).

Table XIV: Andean Group: Tentative prevailing income distribution in recent years

Category	Proportion of the population that composes each category %	Proportion of the personal income perceived by each category %	Personal annual income per inhabitant (US-$ of 1960) Average	limits from	to
I	50	15	96		160
II	25	17	216	161	350
III	20	35	553	351	1000
IV	5	33	2108	1001	+ more
Total	100	100	317		

Source: Ilpes, in: "Grupo Andino: avance hacia la formulación de una estrategia regional de desarrollo", Ilpes, Cepal, diciembre 1970, Vol. I, p. 137.

Table XV: Andean Group: Structure of private consumption (in percentages)

1970	Impact on the family budget			Impact on priv. demand by expenditure group		
	Poorer 50 %	Rest	Total	Poorer 50 %	Rest	Total
A. Food, beverages, tobacco, clothing, shoes, furniture	71.0	51.9	54.9	20.7	79.3	100.0
B. Pharmaceutical products, chemicals + combustibles	8.5	5.4	5.9	23.0	77.0	100.0
C. Durable goods	1.5	15.5	13.3	1.8	98.2	100.0
D. Services	19.0	27.2	25.9	11.8	88.2	100.0
Total	100.0	100.0	100.0	16.0	84.0	100.0

Source: as for Table XIV, p. 52.

A better distribution of the income would lead to an increased demand for manufactures, that would tend to utilize the full production capacity of the industrial plants. The actual unequal distribution of income is closely related to the high proportion of the population that lives in rural areas (about 50%), where the productivity of the agricultural sector is very low. This leads to big quantitative as well as qualitative demand differences for manufactures in the Andean Region.

58. Transport: transport problems are very serious in the Andean Region and their solution will be decisive in integrating the area physically and economically.

The subregion offers a very difficult geoeconomic image, with a high proportion of mountainous, desertic and semi-desertic regions, low population density with great dispersion, big distances between consumer and production centres, etc.

The actual most important trade flows occur between Colombia and Peru, Chile and Peru, and Chile and Ecuador. About 85% of it utilizes the seaway. About 40% of this freight consits of liquid combustibles. This transport system has also been concentrated in very few ports and technological innovations even accentuate this trend.

But this type of transport has been also very inefficient, so that it is said that cargo handling and port costs accounted for no less than 66% of total shipping costs in intra-Lafta trade at the beginning of the 60's[1]. Also, between 1962 and 1968 insurance and freight costs of intra-Lafta trade averaged nearly 18.4% of the value of the goods traded, while world level estimates range between 10 and 12.5%[2]. On account of the geographic situation, the water transportation system will be of key importance, in that physical distance does not matter so much as the general costs of transportation[3]. But this position is exposed to high criticism in a dynamic way, since it is of a very static nature, keeping about the same productive elements within the scene of intra-regional trade as there are at the present. Also, the possibility of increasing the size of the internal market is not greatly changed, since there are not many forces which could change the productive and trading centres within this policy. Therefore, new ways of transportation should be created, with the corresponding risk of having to operate with overcapacity for a rather long period. The funds available in and under the control of Latin America should be used to improve other means of transport than by sea, since foreign capital and services are already available there[4], and would not be conflictive with the new common treatment for foreign capital in the Andean Group, where prohibition for foreign capital to operate internal transport means is stated.

Air transport could be a good field for development, because of the great distances, especially for light manufactures. At present, Colombia and Chile concentrate 83.7% of the total air freight and 70,5% of passenger transport.

The ground transport has virtually no importance, because of the low development of the internal railway systems with practically no international connections, except for Bolivia with Chile and Peru. Only in Chile is it of some importance, concentrating 50% of the tons/km and 70% of the passenger/km of the subregion. But railway transportation should not be ignored as a possible mean of low cost transportation, due to the long distances and the difficult geographical conditions in the Andean Group.

In conclusion, transport problems are very important in the subregion and practically no integration effect can be expected by simply opening the frontiers and many of the dynamic effects will also be lost if the transport facilities - specially to far off regions - are not substantially improved. This situation of high intra-regional transport costs provides a respectable natural protection to many smaller plants, which may outweigh the benefits of the economies of scale that could be achieved by producing for an enlarged market.

Outlook

59. The prospects for the successful development of this new integration effort are more promising than in Lafta, because the member countries have a more harmonic

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[1] "Prospects for a maritime block within Lafta", in: Comercio Exterior de Mexico, December, 1963.

[2] Socio-Economic Progress in Latin America, Annual Report 1969, p. 61.

[3] "El problema del transporte en la Alalc y sus vinculaciones con el desarrollo económico general de la zona", Mateo Magariños de Melo, in: Trimestre Económico, Oct.-Dec., 1962.

[4] Simon Hanson: "Economic development in Latin America", 1951, and A. Scaperlanda: "The role of transportation in the economic integration of underdeveloped areas", in: Land Economics, Vol. XLII, No. 2, May, 1966.

development stage and necessary measures have been provided to secure a balanced development. Also, there is a stronger political will behind this integration scheme, but the problems to be faced are immense and one should not be too optimistic about their solution.

The first effects that should be expected are those following closer trade relations between the member states. But there is a lack of traditional commercial links between the countries and the difficulties in transport are also extensive in contrast with the situation prevailing in Europe when the Common Market was created. It will therefore take a rather long time to improve trade between these countries.

60. The figures shown for Lafta indicated that the biggest export stimulation has been more for traditional goods and less for manufactures. This indicates trade creation, since it represents a shift to low cost producers. On the other hand, it is stated that there is ample scope for trade creation in manufactures which were long ago substituted and not imported from third countries. These would be mainly durable and non-durable consumer goods and some intermediate goods. But the case has been that the list of products excluded from the integration process by each country in the form of exception lists, contain mainly similar products like textiles, the basic metallic industry, some chemical products, food products, as well as light manufactures. This may be caused by the fear of high potential competition within the customs union, even with a poor transport network.

The formulation of the exception list is at least partly a reflection of the arguments of interested groups, who see their protected interests threatened by the integration process. These fears may have no basis, as can be seen from the integration processes of the Benelux countries and the EEC. Here we observe that specialization within branches of production and individual firms have more importance than reallocation of whole industries. If, however, intra-industry rather than inter-industry specialization prevails, the possibility is very low that a branch of production in one country may be eliminated through competition.

61. For capital goods, where large scales of production are necessary, the formation of a big market is needed. These types of products have the biggest import share in the Andean Region, so that in 1970, 49% of the imports were constituted by metal-mechanical products and 36% by intermediate goods (chemicals and basic metallic products). Therefore, the scope for import substitution in these types of products will be improved by the integrated market. But, since this market will not be big enough for the production of several goods of this type (the refusal of Venezuela to join restricted even more the potential market), imports will have to continue. In order to attain the necessary foreign exchange to meet the growing import necessities dictated by the development target, great efforts will have to be made in the promotion of exports of manufactures.

62. In a recent study[1] it is shown that if the Andean Region wants to attain an accelerated growth rate (6, 5% yearly) and maintain the import coefficient at the level it has now (13, 7% of GDP), it will not only have to substitute growing amounts of imports every year, but it will also have to increase its exports of manufactures to a great extent by 1985 (1985: 3, 700 million dollars in import substitution and 1, 300 million dollars in additional exports of manufactures). This is an effort that the Andean Region will hardly be able to make without a closer cooperation with the rest of Lafta. Import substitution of several capital goods would only be possible in a Latin American scale, since for becoming competitive in the international market in quality takes a rather long period. Therefore, a good starting point is to produce for the Latin American region. These

[1] "Criterios y posibilidades de desarrollo industrial y planificación conjunta", documento preliminar, N.U., Cepal and Ilpes. Santiago, Chile, February, 1970.

goods could be exchanged with the big partners of Lafta. In this way, prospects of exports of manufactures of the Andean Region to the rest of Lafta would be increased and the need of foreign exchange would be reduced because of the clearing system between these countries. This system has functioned quite well. It provides multilateral clearing of reciprocal balances and credits, which operates by a series of bilateral agreements between Lafta Central Banks, with a quarterly clearing schedule. The transactions effected under these agreements have been rising year by year, covering almost half of the trade by 1969. The clearances requiring dollars have been reduced to a minimum.

63. The regional investment policy (Sectorial Programs of Industrial Development) can help to reach maximum benefits from inter-industry specialization and economies of scale, as well as avoiding the clustering effects of industrialization on already existing development poles. This will increase the growth rate of production and the efficient use of capital within the area, as well as a better utilization of capacity already existing in industrial plants. Most of these activities would possibly lead to trade diversion in a first phase, but since they accelerate the rate of growth of the economies and often induce the employment of resources otherwise not utilized, it has to be considered as a positive effect.

64. The regulation to treat foreign investments equally also has to be considered as a positive sign, since it will prevent that the member countries compete with each other to attract foreign capital. But, as it threatens to limit the inflow of capital, its survival is doubtful. National saving capacities being limited, foreign capital is badly needed to accelerate the growth rate of the economy, thereby easing the vast problem of unemployment. As is shown in a recent study[1], foreign investors, on the other side, seem however not to be convinced that the regulations will be strictly applied. Moreover, they still consider political stability as the most important condition for an adequate investment climate.

65. Apart from these special problems, it must be said that generally the potential benefits of this integration scheme can only be reaped if there are changes in the orientation of the national production and trade policies in each of the member countries. Up to the present, the national policies have been fundamentally oriented towards the satisfaction of internal demands. The new orientation has to be directed towards the integrated market, whereby great effort will have to be put on specialization and complementation (see paragraph 19), as well as on the level of production. Government policies should also help to orient the national enterprises towards the integrated market, whereby problems like lack of knowledge of foreign markets, the financing of exports, transport, etc. will have to be solved. Many of these problems have their origin in the weak trade relations that have been historically observed between the member countries.

66. Another serious problem related to the coordination and harmonization of economic policies is the different political orientation the member countries have. The Treaty was implemented upon the basis of market economies. Recent developments have shown that at least one member country (Chile) is going straight in the direction of a centrally planned economy. Will it be possible to harmonize the orientations of the different governments, so as to create a common basis to plan the economic development trying to reach common goals? Up to the present there has not been any experiment of this type, since here, besides the economic integration of the members, the integration of different political systems, with different goals and priorities is to be achieved. Only time can give an answer to this question.

[1] "How will multinational firms react to the Andean Pact's decision 24?, a survey of twenty corporations", in: Inter American Economic Affairs, vol. XXV, autumn 1971, nr. 2.

Appendix I: GDP by sectors of economic activity (selected countries)

Bolivia

Sectors	Percentage Structure 1965	Percentage Structure 1968	Annual Rates of Growth 1965-68
Agriculture	28.3	24.7	1.8
Mining	10.2	12.9	15.0
Manufactures	13.1	13.3	7.2
Building	5.6	4.9	1.7
Subtotal goods	57.3	55.8	5.6
Electricity, gas, water	1.3	1.6	14.1
Transport and communication	8.6	8.4	5.8
Subtotal basic services	9.9	10.0	7.0
Commerce and finance	10.3	11.5	10.6
Government	8.7	8.6	6.6
Real estate	5.1	5.3	8.3
Other services	8.7	8.8	6.7
Subtotal other services	32.8	34.2	8.2
Total product	100.0	100.0	6.8

Colombia

Sectors	Percentage Structure 1965	Percentage Structure 1968	Annual Rates of Growth 1965-68
Agriculture	31.1	31.0	5.1
Mining	3.8	3.1	-2.0
Manufactures	18.0	18.1	5.4
Building	3.3	4.4	16.2
Subtotal goods	56.2	56.6	5.5
Electricity, gas, water	1.1	1.2	8.7
Transport and communication	7.2	7.1	4.8
Subtotal basic services	8.3	8.3	5.3
Commerce and finance	16.7	16.7	5.3
Government	5.9	5.5	3.4
Real estate	5.9	6.0	6.3
Other services	7.0	6.9	4.5
Subtotal other services	35.5	35.1	5.0
Total product	100.0	100.0	5.2

Chile

Sectors			
Agriculture	10.2	10.8	5.8
Mining	9.8	9.7	3.8
Manufactures	25.3	25.8	4.6
Building	4.8	4.0	-2.4
Subtotal goods	50.1	50.3	4.1
Electricity, gas, water	1.4	1.4	4.5
Transport and communication	10.5	10.2	2.7
Subtotal basic services	12.0	11.6	2.9
Commerce and finance	16.3	17.1	5.7
Government	4.9	4.7	2.9
Real estate	5.2	4.9	1.9
Other services	11.5	11.3	3.3
Subtotal other services	37.9	38.1	4.1
Total product	100.0	100.0	4.1

Ecuador

Sectors			
Agriculture	33.9	31.3	1.7
Mining	2.0	2.2	7.4
Manufactures	17.3	16.9	3.9
Building	4.1	4.6	8.3
Subtotal goods	57.3	55.0	3.1
Electricity, gas, water	1.4	1.6	8.6
Transport and communication	3.8	3.6	3.0
Subtotal basic services	5.2	5.2	4.6
Commerce and finance	13.7	13.6	4.2
Government	7.3	8.4	9.7
Real estate	6.5	6.2	3.2
Other services	10.0	11.5	9.7
Subtotal other services	37.5	39.8	6.6
Total product	100.0	100.0	4.5

Peru

Sectors	Percentage Structure 1965	Percentage Structure 1968	Annual Rates of Growth 1965-68
Agriculture	20.2	18.7	-0.1
Mining	7.0	6.9	2.3
Manufactures	23.3	22.2	5.7
Building	4.2	3.2	-6.6
Subtotal goods	51.7	51.0	2.1
Electricity, gas, water	1.0	1.1	7.2
Commerce and finance	19.8	19.5	2.1
Government	7.9	8.2	3.9
Real estate	6.6	6.7	3.1
Other services	13.0	13.4	3.7
Subtotal services	48.3	49.0	3.1
Total product	100.0	100.0	2.7

Sectors	Argentina Percentage Structure 1960	Argentina 1968	Brazil Percentage Structure 1960	Brazil 1968	Mexico Percentage Structure 1960	Mexico 1968
Agriculture	17.4	15.4	28.0	20.4	18.0	13.3
Mining	1.1	1.7	0.3	0.7	5.6[b]	4.3[b]
Manufactures	32.2	35.2	21.4	24.0	23.4	21.9
Building	4.2	4.3	2.0	1.1	3.6	4.8
Electricity, gas, water	1.3	2.1	1.8	2.5	1.3	1.3
Transport and communication	7.6	7.5	7.4	7.4	5.0	3.4
Commerce and finance	19.1	18.6	15.2	20.2	24.2	30.2
Other services[a]	17.1	15.2	23.9	23.7	18.9	20.7
Total	100.0	100.0	100.0	100.0	100.0	100.0

Sectors	Andean Group Percentage Structure 1960	Andean Group 1968	Latin America Percentage Structure 1960	Latin America 1968
Agriculture	25.8	22.0	22.0	17.6
Mining	6.9	6.2	4.6	4.2
Manufactures	18.8	20.9	22.3	23.6
Building	4.1	4.2	3.4	3.5
Electricity, gas, water	1.0	1.3	1.4	1.9
Transport and communication	6.3	7.2	6.3	6.0
Commerce and finance	15.6	16.0	18.4	21.4
Other services	21.5	22.1	21.6	21.7
Total	100.0	100.0	100.0	100.0

a) Includes public administration, defence and other non specified services.
b) Includes mining and petroleum.

Source: (1) for Bolivia, Chile, Colombia, Ecuador and Peru, a calculation of Ecla, published in Incomex, Bogotá, Colombia, Vol. 3, No. 7. July 1971.
(2) for Argentina, Brazil, Mexico, Andean Group and Latin America, a calculation of Ecla, published in "Antecedentes para el estudio de los problemas de desarrollo de la Subregion Andina, U.N., 1970, p. 50.

Appendix II:

Products included in the liberalization program of trade between the Andean countries:

a) The Sectorial Programs of Industrial Development have been agreed upon for 603 products, which belong to the following main groups of goods: oils and grease; chemical and petro-chemical products; pharmaceutical products; plastics; tires and rubber products; paper and cellulose; synthetic textiles and fibres; glass products; basic metallic products; tools; different types of machinery; electric and explosion motors; electric equipment; transport vehicles; optic, photographic and medical instruments.

This group of products represents something like 30% of the present production of manufactures in the Andean countries. They are mainly characterized by rapid growing demands and the use of modern methods of production. The present demand for these products amounts to about 4,000 million US $, which is covered only up to about 60% by domestic production. The projected demand for these products in 1985 is estimated at 16,000 million US $[1], so that the potential industrial development that could be generated thereby is not to be underestimated. The enlarged market will make the production of several products possible that need a bigger production scale (the exclusion of Venezuela is a severe market restriction that will hinder the production of some goods, specially capital goods).

b) Products included in the Common List of the Treaty of Montevideo. This applies only to the first part of this list, that is to say, 25% of the trade between the members during the first three years of operation of the Treaty of Montevideo. As has been shown in paragraph 9, the provisions to form the final Common List were not applied on the dates specified, so that up till now, only 25% of the trade between the member countries falls under this rule. This group of products comprises 178 goods, mainly traditional goods such as agricultural products and minerals.

For the products included in the second part of the Common List (that is to say, the additional 25% of trade between the members at the end of the second three year period), but for which no final agreement was reached to cover up to 50% of the trade (see paragraph 8), the Commission of the Andean Group has to decide upon its ultimate liberation.

c) Products that are presently not produced in any of the countries of the subregion and which are not already included in Sectorial Programs of Industrial Development. They comprise 343 products, mainly chemicals, some kinds of paper, manufactures of special metals, some kinds of motors and machinery, and some instruments.

The products reserved to be produced in Bolivia and Ecuador have a reserved market until 31st December, 1980. Colombia, Peru and Chile abolish all kinds of restrictions on these products from 28th February, 1971. For Bolivia there are 40 products, which correspond mainly to chemicals, some ferrous and non-ferrous products and some tool machines. For Ecuador there are 37, corresponding mainly to some chemical products, some types of paper, some appliances for electric machines, and all types of watches and instruments.

d) The group of products affected by the automatic tariff reduction system is substantial, being about 2/3 of the tariff nomenclature (Nabalalc), that is to say, approximately 3,400 items. They include: food products; minerals; part of the products of the chemical industry; wood and its manufactures; an important part of the paper products; practically all the products of the textile industry; skins and hides; cement, amianto and ceramic products; an important part of the glass industry; the basic metallic non-siderurgical industry; diverse machines and mechanic and electric appliances; and numerous consumer goods not mentioned before.

These sectors represent almost 100% of the agricultural and mining productions of the subregion and almost 70% of the manufactures.

For a group of products presently produced by Bolivia and Ecuador, the reduction of tariffs proceeds faster than 10% annually. For Bolivia the number of preferenced products included in this group is 62, mainly agricultural and food products, some beverages, tin products, bicycles and bus-bodies.

For Ecuador 49 products have been included in this group, consisting mainly of meat and meat products, food products in general, jute products, clothing of synthetic fibres, some home appliances and refrigerators, furniture and some other products.

e) Exception lists: The result was as follows:

Colombia used only 182 items, corresponding mainly to food products, textiles, clothing and shoes, basic metallic products, electric products and machinery.

Chile used the 250 items, corresponding mainly to food products and beverages, cement, petrochemical products, chemicals, tires, timber, textiles, clothing, non-ferrous products and furniture.

Peru also used the 450 items, corresponding mainly to beverages, petrochemical products, chemicals, leather products, paper products, textiles, clothing and shoes; non-metallic products, basic metallic products, tools and home products, electric products and machinery and transport vehicles.

Bolivia used 248 items with 21 subpositions, corresponding mainly to food products and beverages, chemicals, pharmaceutical products, timber, paper and cellulose, textiles, shoes and clothing and some other products.

Ecuador used 600 items, corresponding mainly to food products and beverages, chemicals, cement, tires and rubber products, paper products, textiles, clothing and shoes, non-metallic products, basic metallic products, tools and home appliances, electric articles and machinery, other machinery, transport vehicles and some instruments.

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[1] "La Subregion Andina: Potencial Industrial y Mecanismos Básicos de Integración", p. 22, Primera reunion de empresarios metalúrgicos de la Subregion Andina, Santiago, Chile, August 1971.