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Latin American Economic Integration

DR. STANLEY F. ROSE*

Although significant progress was made toward Latin American economic integration in 1978, as evidenced by the signing of the Andean Common Market's Arequipa Protocol (which established the Andean Reserve Fund to help the ANCOM members with their balance-of-payments problems) and the Amazon Pact¹ (a new integration scheme), the progress toward Latin American economic integration during the first quarter of 1979 must be characterized as slight. Such lack of progress is due to economic and political factors and to the Latin American nations' inability to resolve the basic problems and conflicts which have consistently caused their integration efforts to become mere theoretical postulates.

In the latter half of 1978 and the first quarter of 1979, the political climate in many of the countries in the region was a result, in great part, of the lack of progress toward integration. Elections and proposed elections, governmental changes, and emphasis by governments on political rather than economic issues hindered integration efforts in 1978 and early 1979, thus continuing a pattern established in prior years.

THE ANDEAN COMMON MARKET (ANCOM)

The Andean Common Market has been noted in the last few years for its inability to put into practice measures adopted at a high political level. Even the important sectoral program for the automotive sector (Decision 120) has experienced slow progress, although certain movement in this area did take place in the latter half of 1978. Developments in the first quarter of 1979, however, have clouded such progress, especially in Bolivia and Ecuador.

Late in 1978, Venezuela was reported to be the first member nation to select new automotive firms to assemble the vehicles allocated to that country under the program. Fiat (Italy), Renault (France), General Motors (U.S.A.), and INI Pegaso (Spain) won the

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1. See generally *Latin American Economic Integration*, 10 LAW. AM. 549 (1978).

major assignments, confirming Venezuelan policy to diversify its investment and technology sources from a predominantly North American base.² Fiat was the assembler most favored by the assignments. It was granted the rights to make the basic passenger car model of 1,500-2,000 cc and the basic truck model of 9.3-17.0 MT gross vehicle weight.³ Shortly thereafter, Bolivia announced that Mercedes Benz (Germany) and Renault (France) would be selected to assemble heavy and lightweight trucks.⁴

A new development took place in March 1979, when Bolivia and Venezuela entered into an agreement to co-produce and co-assemble vehicles and component allocations shared by them under the automotive program. Bids from the two pre-selected companies, Ford and Renault, were due on March 26, 1979; it now appears that Mercedes Benz is no longer in the running to produce heavy trucks due to subsequent changes in its cost estimates.⁵

Following the announcement, late in 1978, that General Motors would assemble four-ton trucks for Ecuador,⁶ and after a month of negotiations, Ecuador also announced that its automotive allocations for ANCOM, the 1050-1500 cc passenger car, would be assembled by Volkswagen AG of Germany. The investment in Ecuador would be as follows: 30% from DEG (the German development bank); 26% from Volkswagen; and 44% from local investors, although the final terms of this agreement are not yet clear.⁷ Moreover, even though the Volkswagen commitment seems firm, it has been revealed that General Motors is still negotiating for a contract to assemble trucks. In any event, the Ecuadorian private sector has been raising serious questions over the advisability of developing an automotive industry.⁸

Peru has yet to select its automotive assembler, although General Motors, Ford, Renault, and Volkswagen appear to be candidates to assemble cars,⁹ and Volvo of Sweden seems a likely choice for truck assembly. Fiat, Renault, and General Motors will probably be the assemblers in Colombia, and Chrysler has just announced that

2. BUS. LATIN AM., August 9, 1978, at 249.

3. *Id.*

4. BUS. LATIN AM., August 23, 1978, at 270.

5. BUS. LATIN AM., March 21, 1979, at 94.

6. THE ANDEAN REPORT, Lima, Perú, October 1978, at 199.

7. BUS. LATIN AM., December 27, 1978, at 416.

8. LATIN AM. ECON. REPORT, March 30, 1979, at 100.

9. Lima Times, February 2, 1979, at 1; BANK OF LONDON AND S. AM. REV., December 1978, at 671.

General Motors will purchase its car and truck assembly operations in Venezuela and Colombia.¹⁰

The April 1979 meetings of the Commission of the Cartagena Agreement (the Andean Pact) did not conclusively resolve the problems of ANCOM. It could be said that the only real progress made in 1978 and the first quarter of 1979 was the formation of the Andean Pact's Reserve Fund.¹¹ Another positive point may be the member nations' quick ratification and implementation of the new foreign capital rules, thus adopting a more flexible approach to foreign investment. However, despite these positive developments, it has been reported that both Ecuador and Bolivia remain disappointed with regard to the benefits they have received from ANCOM.¹²

Further meetings of the Commission were held in May when the Presidents of all of the countries met in Cartagena, Colombia. Hopefully, before such time, the April 1978 Protocol of Arequipa was approved by all of the countries. Presently it has been approved only by Ecuador,¹³ Peru,¹⁴ and Venezuela.¹⁵ The Protocol established new deadlines for the approval of the sectoral programs and the common external tariff.

Preliminary negotiations have been held by the ANCOM countries in preparation for the May 26 meeting. A draft agenda has been prepared in which it appears that the Presidents will review the sectoral programs and sign a treaty regarding the Andean Court. Priority programs are obviously those on light engineering, petrochemicals, and the automotive sector, although chemicals, electronics and telecommunications, iron and steel, and chemical fertilizers will also be considered.¹⁶

THE CENTRAL AMERICAN COMMON MARKET (CACM)

The Central American Common Market's precarious future was not improved by the political events which occurred in the latter half of 1978 and continued into 1979. There was a slowdown in the coffee boom, and political uncertainties plagued Nicaragua, El Salvador, and Honduras. An announced \$12,000,000 expansion of Scott Paper

10. LATIN AM. ECON. REPORT, March 2, 1979, at 65.

11. LATIN AM. ECON. REPORT, February 9, 1979, at 47.

12. LATIN AM. ECON. REPORT, March 30, 1979, at 100, 101.

13. BANK OF LONDON AND S. AM. REV., December 1978, at 669.

14. BOLETIN DE INFORMACION LEGAL (INTAL), December 1978.

15. BOLETIN DE INFORMACION LEGAL (INTAL), November 1978.

16. THE ANDEAN REPORT, Lima, Perú, April 1979, at 55, 56.

Company's operations in Costa Rica appeared to be a shot in the arm for CACM,¹⁷ but only proved to be a temporary boost in view of the Nicaraguan economic and political crisis, the change in government in Honduras, and the political unrest in El Salvador.

On September 1, 1978, the economic ministers of the five regional countries—Guatemala, El Salvador, Honduras, Nicaragua, and Costa Rica—met in Guatemala City to discuss a common Central American Tariff. An agreement in principle was reached to implement the tariff on June 30, 1979, although its application will not be complete until 1980. Whatever the result from this arrangement, however, the future of CACM appears to depend on Nicaragua and its ability to sort out its economic and political problems. The other four countries have been visibly giving full support to the movement in recent months. No further developments were reported in the first quarter of 1979.

THE LATIN AMERICAN FREE TRADE ASSOCIATION (LAFTA)

LAFTA has been essentially idle during the early months of 1979, as this year's round of sectoral meetings will probably not begin taking place until May.

Still to come is the foreign ministers' meeting which is slated to take place sometime before July 1980; this meeting is crucial to LAFTA since the 1980 free-trade deadline is fast approaching, and an extension seems inevitable.¹⁸

THE CARIBBEAN COMMUNITY (CARICOM)

As the second half of 1978 progressed, the outlook for CARICOM brightened, primarily because of improved relations between the member nations.¹⁹ Nevertheless, the problem of deteriorating intra-regional trade continues. A lopsided regional trade pattern exists which prejudices Trinidad and Jamaica, as well as the lesser developed member, Guyana.²⁰

The region improved ties with an emerging world power late in 1978 with a visit to the area by a twenty-three member trade and cultural delegation from China. Moreover, Guyana, Jamaica, and

17. *BUS. LATIN AM.*, August 30, 1978, at 274.

18. *BUS. LATIN AM.*, October 18, 1978, at 334.

19. See *LATIN AMERICAN ECONOMIC INTEGRATION*, 11 *LAW. AM.* 149, 160-63 (1979).

20. *BUS. LATIN AM.*, December 13, 1978, at 395, 398.

Trinidad and Tobago developed their relationships with various socialist countries.²¹

In 1979 Guyana surprisingly issued a favorable foreign investment code in which all investment proposals would be reviewed on a case-by-case basis in relation to goals of economic growth, resource exploitation, and technology contribution.²² In addition, Trinidad announced it was reassessing the Caribbean Community in a white paper. A call for a Heads of Government Conference may be imminent; such a Conference could decide the future of CARICOM. If eventually Trinidad leaves CARICOM, it will create a power vacuum which will move the region closer to Cuba, Jamaica, and Guyana.²³

THE LATIN AMERICAN ECONOMIC SYSTEM (SELA)

No significant SELA activity occurred in the first quarter of 1979. However, SELA's image was improved in January when it agreed to a series of recommendations made at a May 1978 UNCTAD conference. SELA also took the initiative in the formulation of a new strategy to revive the North-South dialogue. During its January 1979 Caracas meeting, SELA delegates agreed to seek closer commercial ties with the socialist countries through the promotion of an alternative East-West dialogue, and they also agreed to review the present system of international financial cooperation. SELA will undertake to seek ways to increase the flow of resources to developing countries in view of continued developing nation dissatisfaction with the International Monetary Fund (IMF). A call was made for regional unity, and emphasis was placed on detailed negotiations between SELA members and the developed world.²⁴

THE AMAZON PACT AND THE RIVER PLATE BASIN PACT

Since the Amazon Pact (composed of Bolivia, Brazil, Colombia, Ecuador, Guyana, Peru, Surinam and Venezuela) was signed in July 1978, there has been no notable movement in this area. With respect to its sister pact, the River Plate Basin Pact (signed by Argentina, Brazil, Paraguay, and Uruguay), the Tenth Conference of the Foreign Ministers of such countries was held in Punta del Este, Uruguay, in December 1978. A number of points were discussed, including the

21. LATIN AM. ECON. REPORT, August 11, 1978, at 247.

22. BUS. LATIN AM., March 14, 1979, at 87.

23. BUS. LATIN AM., March 21, 1979, at 92.

24. LATIN AM. ECON. REPORT, February 9, 1979, at 46.

manner in which interregional trade and transportation could be improved.²⁵ Also reviewed were the supply of Bolivian gas to Brazil and Uruguay, and the coordination of the three binational hydroelectric projects on the River Paraná (Itaipú, Yacretá-Apipé, and Corpus).

ECONOMIC AND POLITICAL OUTLOOK FOR LATIN AMERICA

The economic outlook for Latin America—and the consequent forward impulse of the integration movements—appears optimistic because of the recent increases in certain commodity prices such as copper and oil. Mexico, Venezuela, Peru, and Ecuador benefit from the oil price increases, although Brazil may be hurt by them if new oil is not found. Brazil, Chile, Argentina, and Peru will be plagued, at least in 1979, by inflation. Argentina remains a trouble spot due to low productivity and high inflation, as well as political uncertainty.

Politics plays a large role in the future of Latin America. Due to President Carter's political liberalization movement and the push for human rights, Argentina, Brazil, Chile, Nicaragua, and Uruguay have had to make readjustments to new political realities. The political future in Bolivia is uncertain due to political turmoil and the July 1, 1979 election. The leaders of the various factions of the *Movimiento Nacionalista Revolucionario*, Victor Paz Estenssoro and Herman Siles Zuazo, appear to be the leading candidates there. As for Ecuador and Peru, the outcome of crucial elections to be held in those countries in April 1979 and early 1980, respectively, is the key. In Central America, Nicaragua and El Salvador, the site of a number of recent kidnappings, remain political hotspots.

In general, the last half of 1978 and the first quarter of 1979 were not promising for integration movements due to political uncertainties. The Argentine-Chilean controversy over the Beagle Channel at year-end 1978 fueled the fire in the southern cone of South America, while musical presidential chairs in Bolivia and an unclear election in Ecuador added to uncertainty. The Peruvian situation, wherein a Constitutional Assembly was elected to draw up a new Constitution, is still unclear, and the date and candidates for general elections are unknown. Brazil appears stable, but the results of military rule under General Joao Baptista Figueredo remain to be seen. Colombia has a new President, Julio César Turbay Ayala, who ap-

25. BANK OF LONDON AND S. AM. REV., January 1979, at 20.

pears to favor integration; and the new President of Venezuela, Luis Herrera Campins, will probably also support such movements, although it is too early to tell in this case. As mentioned earlier, the future of CACM will depend on whether Honduras, and especially Nicaragua, can solve their own economic and political problems. CARICOM is also subject to political forces.

In summary, 1979 may be a key year as certain political questions will be decided. The initiatives to revive LAFTA and to give impetus to the Andean Pact will be "judged" in 1979, at the end of which time a clearer picture of the future of Latin American economic integration should appear.