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Latin American Economic Integration

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**LATIN AMERICAN
ECONOMIC INTEGRATION**

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At the close of 1974 the processes of Latin American economic integration, within the Latin American Free Trade Association, the Andean Group and the Central American Common Market, appear to be in a period of consolidation and advancement demanding important decisions on the part of member governments in an effort to crystalize, juridically and institutionally, the desire for integration so often expressed by authorized spokesmen. It is true that, on more than one occasion, the difficulties encountered by these processes have been of such magnitude and the bargaining of member governments over satisfactory formulas has been so hard that observers, with good reason, can speak of the "crises" of Latin American integration. These "crises", however, are only natural phenomena, inherent in the very nature of the integrationist effort. The Latin American task is to transform the economies of a number of less developed countries, at various levels of progress, into a single economic perimeter by means of decisions coordinated among participating governments and the institutions created by the respective treaties to which the governments have delegated certain powers for the attainment of integrated development.

The desire to transform national economies into more modern systems from the socio-economic point of view and, at the same time, to progres-

sively amalgamate diverse national interests into a single interest, shared by all participant states, is what makes the progress toward integration so difficult. From that perspective each crisis indicates the existence of a movement toward the realization of an idea as ambitious as it is necessary; and each crisis overcome is one more milestone, along a path which, by definition, is not easy and which demands the good will, patience, and creative imagination of all participants.

The difficulties encountered in fulfillment of the desires expressed by the LAFTA countries in the "Declaration of Buenos Aires", the problems arising in the Andean Group from Decision 24, dealing with the common treatment of foreign capital, in effect in this sphere, and the obstacles encountered in the crystallization of the future Central American Economic Community, are among the numerous examples illustrating the "crisis" of integration. These in no way can be unfavorably compared with the progress achieved to date, and, as far as the future is concerned, reveal the existence of a desire for integration matching the obstacles arising in the process.

LATIN AMERICAN FREE TRADE ASSOCIATION

The most significant event relating to LAFTA during 1974 was, undoubtedly, the contracting of collective negotiations for the purpose of making a profound analysis of the Association and its future, envisaged in Article 61 of the 1960 Treaty of Montevideo, which decrees:

On the expiration of the twelve-year term starting on the date of entry into force of the present Treaty, the contracting Parties shall proceed to study the results of the Treaty's implementation and shall initiate the necessary collective negotiations with a view to fulfilling more effectively the purposes of the Treaty and, if desirable, to adapting it to a new stage of economic integration.

The negotiations took place at three meetings: in August at Buenos Aires, Argentina, in October at Quito, Ecuador, and in November at Montevideo, Uruguay. The international context in which these meetings were held, in the midst of the energy and monetary crisis affecting all Western nations as a result of the petroleum price increases and other related problems, created a sense of urgency to plan the integration as the Latin American regional affirmation of an increasingly interdependent international community. The chairman of the inaugural meeting at

Buenos Aires, the Argentine Ambassador, Leopoldo Hugo Tettamanti, summarized these sentiments in the following words:

The time has come, then, to translate words into action; to create flexible and efficient mechanisms which may bring progress on the basis of mutual benefit and complete elimination of our dependence; to end forever with artificial obstacles which have opposed so far the attainment of effective economic integration, active trade and a genuine Latin American system of cooperation.

The idea of the integration process as an instrument of economic and social development was one of the preoccupations of the governments participating in the dialogue in Buenos Aires. The fact is that, more and more, integration movements support not only the idea of economic and technical independence but this independence as a condition necessary to satisfy the aspirations of vast sectors of the Latin American population. It should be noted, nevertheless, that the aspirations of independence do not represent an isolationist attitude but rather a new form of participation in modern trends of international interchange.

The Declaration of Buenos Aires reflects the mentioned aspirations in the following manner:

The Representatives of the Contracting Parties of the Montevideo Treaty, meeting in Buenos Aires to open the Collective Negotiations called for in article 61 of the Treaty,

REAFFIRM the decision of their Governments to attain Latin American integration, positive that they will thus speed up economic and social development, raise the living standard of their peoples and secure a more significant participation of the region in international economy.

In reiterating those intentions, they are mindful that the international economic situation demands maximum efforts from the developing countries to increase their participation in world trade, to reduce the negative impact of distortions affecting the international monetary system and to overcome their economic dependence on developed countries, specially with regard to financing and technology. They are fully aware that current developments constitute a challenge requiring effective mutual economic cooperation to promote better utilization of human and natural resources and to develop an adequate regional technology.

Convinced that the achievement of the Montevideo Treaty aims will contribute to speed up Latin American development, the Representatives of the Contracting Parties of the Latin American Free Trade Association participate in the negotiations with full intent to evaluate the results of the implementation of the Treaty and the operation of its mechanisms and institutional bodies, to conform them to the present economic and social situation of the region, as well as to adapt them, if suitable, to a new stage of integration.

Later on, among other objectives, the Declaration affirms that:

THEY CONSIDER that, through the accomplishment of these aims, they will have interpreted accurately the integrationist vocation of their peoples and the fundamental principles of international social justice, securing the most active participation of the different economic and social sectors, which are direct agents and beneficiaries of this process.

The Declaration of Buenos Aires was considered the new political frame of reference for attainment of the goals that integration strives for. However, during the subsequent sessions in Quito and Montevideo it was not possible to crystalize institutionally the reorganization of LAFTA in order to fulfill those ideals. The Montevideo meeting was suspended until a later date more amenable to greater concrete progress. All this does not mean that the meetings which took place were useless, and perhaps later on in another note it will be possible to analyze some of the more urgent problems confronting member governments in the framework of consolidation and progress of LAFTA.

CARTAGENA AGREEMENT

From November 12-14, 1974, the Commission on the Cartagena Agreement held its Sixteenth Regular Meeting at Lima, Peru. This was the most important meeting of the year in that area of integration, because it resolved what some observers had considered the most serious crisis ever faced by the governments party to the Cartagena Agreement. The problem was raised by Decree 600 of July 11, 1974 of the Chilean Government, "Statute of Foreign Investment", vis-a-vis the content of Decision 24 which regulates this subject in its essential aspects and the application of which is obligatory in all countries of the Andean Group.

Decision 24 was the product of an institutional process envisaged by these same parties to the Agreement. It imposes a rule of conduct common to the states in all matters relating to the treatment of foreign investments and to trademarks, patents and royalties, in accordance with a certain idea of what is most convenient for the integration and development of the participants in the process. In an earlier meeting the Commission had declared that Decree 600, as much in letter as in spirit, had departed from Decision 24.

It is beyond the purpose of this informative note to analyze the polemics over whether Decree 600 actually departs from Decision 24, or whether the latter, as also was contended, has been superseded by international economic, financial, and technological realities; in other words, whether it is obsolete in concept although still valid from the formal juridical point of view. It will suffice to very briefly relate the manner in which the interdiction was solved and, then, stress the importance of this episode, or "crisis" of integration.

During the Fifteenth Regular Meeting, the Committee entrusted the coordinator of the Board of the Agreement to carry out necessary investigations relating to problems resulting from the application of Decision 24 in member countries. At once the most important visits were made to Chile and concluded with an interview by the Board with the Chilean Chief of State. As a result of these efforts, the Government of Chile issued Decree-law 746, which declares that Decision 24 is totally in force and is an integral part of Chilean law. Furthermore, it was declared that the Committee on Foreign Investments envisaged in Decree 600 would act as the competent national agency in the enforcement of a common policy.

Consequently, the Commission decided to continue its study of the application of Decision 24 in order to provide in the future, as proposed by the Board, a common regulation and, also, to proceed to modify Decision 24 in those aspects considered pertinent.

This critical episode in the process of integration of the countries of the Andean Group eloquently illustrates one of the most difficult problems facing the integration of those countries and, in general, of all Latin America. The spectrum of political and economic ideas on the individual national level of the participating countries, stimulated by the concept of ideological "pluralism" to which the majority of nations adhere, will, undoubtedly, generate different attitudes about one of the most important topics of integration, to wit, the treatment of foreign capital and tech-

nology; in other words, attitudes toward transnational enterprises possessing the technology and the principal vehicle for attracting private foreign capital. A common system for treatment of foreign capital presupposes a basic philosophy shared by various sovereign nations: approaches that, if not alike, are compatible as regards the far-reaching importance of the process of Latin American regionalist affirmation toward the rest of the world.

From the drives toward social and economic development of the Latin American masses and from the cooperation of all sectors of the developed world with integration efforts there may appear models of development compatible with all the interests at play making the transition from underdevelopment to development less critical and less explosive than it has been until now.

CENTRAL AMERICAN COMMON MARKET

The year 1975 will be a very important one for setting up the driving force that will renew the integrationist movement which member governments, as well as the Permanent Secretariat of the General Treaty of Integration (SIECA) and diverse public and private entities, propitiate with a sense of urgency in Central America. The international conditions resulting from the petroleum crisis and outside inflationary pressures on the one hand, the situation in Honduras as a consequence of the destruction caused by hurricane Fifi, and the need to preserve the revenues derived from exports such as the banana, for example, are factors which contribute to the trend toward renewal of the integration movement.

At the request of the Central American governments, SIECA is already preparing a new General Treaty to serve as the basis for the future Central American economic and social community, referred to at other points in this article.

The situation between El Salvador and Honduras, which dates from the armed conflict of 1969, is progressing, within the framework of the Thirteenth Meeting of Foreign Ministers of the Organization of American States, toward a form of understanding leading to the solution of the still pending problems between both countries. On several occasions representatives of both governments have manifested the desire to find a solution to the anomalous situation which exists in the area to the detriment of the five Central American countries. The informal conversations on this subject held by the Presidents of Honduras and El Salvador, in keeping with

international meetings, were endorsed by the traditional *abrazo*, the political symbolism of which foretells positive events. On these bases rests a well-founded and hopeful optimism.

THE CARIBBEAN

STATISTICS COMMITTEE

The Standing Committee of Caribbean Statisticians, a body established by the Caribbean Common Market Council of Ministers in July 1974 for the purpose of developing, improving and harmonising statistics in the Region, held its Inaugural Meeting in Jamaica on 23rd and 24th September, 1974. The Meeting was convened for the purpose of determining and adopting rules of procedure to govern the conduct of meetings of the Committee, and to draw up a programme of work within the Committee's terms of reference. In considering a programme of work for the ensuing year, the Standing Committee set up two Sub-Committees to which were assigned the tasks of identifying areas for statistical enquiry and development, and of harmonising concepts and methodology in the area of overseas trade statistics.

METEOROLOGICAL COUNCIL

The Fourteenth Meeting of the Caribbean Meteorological Council concluded on October 23, 1974 in Antigua. The Meeting was the first to be held since the coming into force on May 31, 1974 of the new Agreement establishing a Caribbean Meteorological Organization.

Among the matters discussed by the Council were alternative proposals for the establishment of an Eastern Caribbean Weather Service (ECWS); conditions of service for Aeronautical personnel in the Associated States and Territories and the 1975 Budgets of the Caribbean Meteorological Headquarters Unit and Institute. A Report by the Principal of the Caribbean Meteorological Institute covering the period September, 1973 to August, 1974, as well as the Report of the Second Meeting of the Institute's Board of Governors were endorsed by Council.

The Government of Dominica, through its representative at the Meeting, signed the Agreement establishing the Caribbean Meteorological Organization and so became the Twelfth Signatory Government to the Agreement.

SOCIAL SECURITY

The first meeting of the Committee of the Working Party on Social Security in the Commonwealth Caribbean was concluded at the Caribbean Community Secretariat on November 13, 1974.

The Committee which comprises officials of Member Countries of the Caribbean Community operating social security schemes, was originally appointed at a meeting of the Working Party held in Trinidad in March of this year to examine a wide range of matters pertaining to the establishment of reciprocal arrangements for social security in the Commonwealth Caribbean.

The Committee has so far considered and accepted the feasibility of including benefits such as sickness, maternity, industrial injury and occupational diseases in reciprocal arrangements. The effect of reciprocal arrangements on mobility of labour in the Caribbean was also scrutinised and in this area no apparent difficulties seemed to exist. In addition, the Committee considered the draft Convention to give effect to the establishment of the scheme for reciprocal arrangements and has so far dealt with a large number of the articles.

The next meeting of the Committee is scheduled to be held in Jamaica early in 1975.

MINISTERS OF FINANCE

The Ministers of Finance of CARICOM Countries met on November 25, 1974 at the Headquarters of the Caribbean Community, Georgetown, Guyana, for the Second Meeting of the Standing Committee of Ministers of Finance. The Ministers had before them for consideration a wide-range set of regional and international issues facing the Caribbean Countries.

The Meeting reviewed and noted the satisfactory progress made in the implementation of regional agreements on the avoidance in the Region of double taxation by regional investors, on the Caribbean Investment Corporation designed to stimulate the industrial development of the LDC's, and on the harmonisation of fiscal incentives to industry within the Region.

In a continuing effort to provide maximum information to the public on these schemes, the Meeting released for public information a Manual prepared by the Secretariat and regional Governmental Officials on the Scheme for the Harmonisation of Fiscal Incentives to Industry.

The Ministers reviewed the state of the Balance of Payments of their national economies and counted the policies employed so far to improve their balance of payments, stressing in every case the continuing damaging effects of inflation and the need for greater domestic production and the importance of continuing mutual regional balance of payments support.

The need for further co-operation in harmonising national policies and systems as they affect taxation, foreign transactions and training of personnel in financial services was identified and specific areas for immediate action agreed on. The need to liberalise restrictions on the movement of funds among CARICOM Countries to facilitate joint investment and travel among the CARICOM Countries, while at the same time avoiding serious worsening of the balance of payments of Member States was discussed. Officials and Central Bankers were charged with the preparation of specific proposals for consideration by Member Countries.

The importance of the Caribbean Development Bank in mobilising the resources of the Region and increasing the Region's self-reliance was underscored. The Meeting was informed that the Central Banks of the Region had offered to subscribe to a special issue of bonds by the Caribbean Development Bank. The Minister of Finance for Trinidad and Tobago also disclosed further details of the special loans which his Government was proposing to make to the Caribbean Development Bank for providing counterpart funds for the Less Developed Territories.

The Ministers, in reviewing developments on the international scene, noted the changing role of sterling for the regional economies arising from the ending of the Sterling Guarantee arrangements.

COMMON MARKET COUNCIL

The Fifth Meeting of the Caribbean Common Market Council ended on December 6, 1974 after two days of deliberations.

The Council reviewed the state of negotiations between the Caribbean Community Countries as part of the African/Caribbean/Pacific Group, with the European Economic Community and took decisions on the Region's strategy for the final phase of these negotiations. The negotiations, will enter a further phase when the ACP sugar-producing countries meet with the U.K. Government on the question of sugar and in Dakar subsequently to finalise the entire ACP position.

The Council reviewed developments in the Region's agricultural trade and adopted the report of the Eleventh Meeting on the Agricultural Marketing Protocol and approved prices for commodities traded under the Protocol. The Council also took decisions geared to provide a guaranteed market for a significant part of Montserrat's 1975 tomato crop. The Meeting also took a number of decisions on Customs matters designed to improve the operation of regional trade within the Common Market.

The Council also approved the 1975 Budget and Work Programme of the Secretariat, which will in 1975 establish a new Desk to promote exports and to provide a market information service as well as a Section to improve the publicity and information available to the Region on the progress of the regional integration movement.

The Council also adopted Rules of Procedure for conducting its future meetings and agreed on the text of a set of draft Instruments which provide the legal framework for the operation of the Caribbean Community and its Secretariat.

During the course of the meeting the Governments of Barbados, Belize, Grenada, Guyana, Jamaica, St. Lucia and Trinidad and Tobago signed a Regional Agreement establishing the Caribbean Advisory Research and Development Institute, the successor body to the Regional Research Council.

The Government of St. Lucia also signed an Agreement establishing the Regional Testing Laboratory which will be located in Jamaica.

SHIPPING COUNCIL

A two-day meeting of the Regional Shipping Council concluded on December 10, 1974 at the Headquarters of the Caribbean Community Secretariat. The meeting considered a 17-point agenda which provided for, *inter alia*, an examination of the existing and future levels of the Shipping Service provided by the present West Indies Shipping Corporation (WISCO); the financing of the Corporation's investment programme; examination of the Budget of the Corporation for the year 1975; and the establishment of a Pilot Project for the collection of shipping statistics to be conducted at one of the Region's Ports.

The Council acknowledged the need to increase the carrying capacity of the West Indies Shipping Corporation and the frequency of the service provided by that company to service the integration exercise. To this end

Council endorsed the Five-Year Investment Programme drafted by the Secretariat to provide for the acquisition of four additional ships. The Scheme for the financing of the Five-Year Investment Programme was approved by Council. Loan financing for the first ship has already been approved by the Caribbean Development Bank (CDB) with the guarantee of the Governments of Barbados, Guyana, Jamaica and Trinidad and Tobago.

The Council examined the Draft of an Agreement to establish a new West Indies Shipping Corporation and to replace the old legislation under which the Council and Corporation had been operating since the demise of the West Indies Federation in 1962. The new Corporation will, under the new arrangement, be responsible to the Standing Committee of Ministers responsible for Transport established by the Conference of Heads of Governments as an Institution of the Caribbean Community under the Treaty.

The Council accepted the Annual Report and Audited Accounts of the Corporation for the year 1973, and approved the Corporation's Estimates of Revenue and Expenditure for the year 1975. Council fixed the level of subsidy to be contributed by Member Governments to the Corporation for the Financial Year ending December 1975.

The Council established machinery for coordinating and expediting the moves being made in the Region by some Member Countries to update maritime legislation, and noted the offers of Technical Assistance to the Region by some international bodies on Regional Transport Planning.

The re-affirmation of the undertaking by the Government of Guyana to become a full Member of the Regional Shipping Council during 1975 was noted by Council which also expressed its appreciation to the Guyana Government for its financial and other assistance to the Council in the past.

The Council agreed on the Terms of Reference for Maritime Transportation for the proposed Regional Transportation Council which the Inaugural Meeting of the Conference of Heads of Government of the Caribbean Community agreed to establish and which will replace the present Regional Shipping Council. The Regional Transportation Council will deal also with Air Transport.