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F. Orrego-Vicuña

A. O.C. Tolosa

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LATIN AMERICAN ECONOMIC INTEGRATION

FRANCISCO ORREGO-VICUÑA
Professor of International Law
University of Chile
Senior Legal Adviser
Department of Legal Affairs
Organization of American States
 and
 ALBERTO O. C. TOLOSA
Legal Officer
Department of Legal Affairs
Organization of American States

LATIN AMERICAN FREE TRADE ASSOCIATION (LAFTA)

The Conference of LAFTA's Contracting Parties held special sessions in Montevideo from March 3 to 8, 1972. The Conference was especially called to acquaint the Parties with Uruguay's request to apply saving clauses to some products included in the Liberalization Program. Through Resolution 300 (XI-E), the Conference authorized the application of such saving clauses.

Special emphasis was given to the results of eight years of sectoral meetings, through which area businessmen express their opinion on the removal of duties and charges from certain products in their respective sectors. In 1963, when the meetings were initiated, the recommendations made by the businessmen did not result in concrete official action. In 1964, LAFTA's Conference adopted 13.4% of the suggestions presented by the corresponding sectoral meetings concerning the removal of duties and charges. The percentage of the recommendations approved during subsequent years has varied greatly: 1965, 31.2%; 1966, 50.7%; 1967, 29.3%; 1968, 53.1%; 1969, 22.6%. None of the suggestions made by the businessmen in 1970 and 1971 were approved.

Although it is a fact that the interest of the governments as well as of the businessmen has focused during recent years on complementa-

tion agreements rather than on the Liberalization Program through the medium of national lists, which explains why the recommendations were mostly aimed at those agreements, the tendency in 1970 and 1971 reveals the trade's expansion crisis within LAFTA.

In fact, the liberalization mechanisms provided for in the Montevideo Agreement have been virtually abandoned or have reached a saturation point. The Common List has been completely discarded as a result of the difficulties encountered in the negotiation of its second round in 1967. Neither do the National Lists continue to have a significant impact. At LAFTA's XI Conference held the latter part of 1971, only fifty-two concessions were achieved, of which solely 38 apply to new products. The Complementation Agreements alone show a favorable tendency. At the last Conference, Complementation Agreements No. 14, 15 and 16 were enlarged and two new agreements were subscribed: one in the sector relating to the refrigeration industry, air conditioning and electrical, mechanical and thermic appliances for household use, and another in the photographic industry sector. Likewise negotiations are under way to extend those agreements and to subscribe new ones.

Indications are that LAFTA will concentrate more and more on liberalizing the interchange between sectors rather than in the broad manner initially envisaged.

SUBREGIONAL INTEGRATION AGREEMENT

So far, implementation of the Subregional Integration Agreement is forcefully being carried out with the result that a gradual liberalization of interchange procedures and an improvement of the process is being achieved by means of the approval of the complementation instruments specified in the Agreement. Nevertheless, some difficulties have arisen from the fact that the respective governments have failed to eliminate the administrative, financial and exchange restrictions on subregional trade, which should have been completely eliminated as of December 31, 1970, by virtue of the provisions of the Agreement. In some cases, such as that of Chile, the restrictions have been increased thus making it more difficult to import products under the subregional liberalization process.

For the purpose of analyzing the course of the subregional process, the III Meeting of Ministers of member countries took place in Lima from June 19 to 21, 1972. The Ministers reaffirmed their support of the subregional integration movement. Common viewpoints in the international area were particularly discussed, with special emphasis on contacts be-

tween the organs created by the Agreement and those of the European Economic Community. Also discussed were the eventual inclusion of Venezuela in the Andean group and the interest shown by Argentina in the Group.

On July 10, 1972, the Agreement's Commission initiated its ninth period of sessions in Lima. On this occasion the proposal of the Agreement's Board regarding the preparation of a Sectoral Program of Industrial Development in the petrochemical field was considered. That organ also proposed a Sectoral Program for the metal-mechanical industry of the subregion. The first program involves petrochemical complexes in the amount of \$500 million; the second, involves a monetary outlay of \$283 million. Negotiations for these programs have been under way since July, 1971.

Another subject which has been considered by the subregional organs has been the effectiveness of Decisions 24 and 37 on a Common Regime for Treatment of Foreign Capital. This item was also considered by the IX Meeting of the Commission. In view of the difficulties which this regime met in Colombia where the Supreme Court objected to it, and in Chile, where the Office of the Auditor General of the Republic also objected to it, the Agreement's Board resolved to call a meeting, in July 1972, of a group of experts under the advisorship of the Institute of Latin American Integration, to consider the establishment of a subregional tribunal. The action of the Board has been encouraged by the Institute for Latin American Integration (INTAL).

CARTAGENA AGREEMENT

On July 27, 1972 Mexico became the ninth permanent observer to the Andean Group, appointing its Ambassador to Lima, seat of the Agreement's Board, to represent it before that body. Mexico is a member of LAFTA, and the letter applying for accreditation stated that Mexico "has viewed with great interest the creation and development of the Andean Group as a subregional market."

CENTRAL AMERICAN COMMON MARKET

The overall picture of Central American economic integration has not changed basically, insofar as the obstacles encountered are concerned. Some of these obstacles arise from the anomalous situation created by

the armed conflict between El Salvador and Honduras in 1969, and others from the difficulties inherent to a process of integration between the national economies of lesser developed countries.

As regards the three-year-old El Salvador-Honduras conflict, some progress has been made, at least at the diplomatic level. On June 7, 1972, when the Conference of Caribbean Nations on Ocean Law met in Santo Domingo, the Ministers of the five Central American countries met under the auspices of the Minister of Guatemala. Great hopes arose as a result of that meeting and, in press circles at least, even the idea of an imminent peace treaty between the two Republics before the Salvadorean President turned over his office to his constitutional successor after his country's presidential elections was raised. Those hopes did not materialize. Honduras' main concern is the problem of a clear delimitation of the boundary line in areas over which both parties claim sovereignty. However, certain constitutional provisions impart some degree of rigidity to the problem.

Thus, the Constitution of Honduras has the following provisions:

Article 5. The territory of Honduras is situated between the Atlantic and Pacific oceans and the republics of Guatemala, El Salvador, and Nicaragua. Its boundaries with the Republic of Guatemala are those established by the arbitral award issued at Washington, United States of America, on January 23, 1933; with the Republic of Nicaragua, those established by the Mixed Honduran-Nicaraguan Boundary Commission, in 1900 and 1901, according to the description of the first section of the dividing line, contained in the second act of June 12, 1900, and in later acts, to Portillo de Teotecacinte, and from that place to the Atlantic Ocean, in accordance with the arbitral award handed down by His Majesty the King of Spain on December 23, 1906, and declared valid by the International Court of Justice on November 18, 1960. With the Republic of El Salvador, the boundary line is to be determined by direct arrangement between the parties or by any of the procedures set forth in the American Treaty on Pacific Settlement (Pact of Bogotá), and in international law, whichever may be more appropriate for the final solution of the border problem, using as a basis the colonial documentation existing until September 15, 1821, and the subsequent documentation concerning the resurveying of border lands, which clarifies the boundaries of lands referred to in colonial titles.

Article 6. No authority may make agreements, treaties, or conventions, or grant concessions that may damage the sovereignty and

independence of the republic. Anyone who does so shall be tried for treason to his country. Any persons who have entered into such agreements or contributed to their execution may be held accountable at any time.

Article 7. Any treaty or convention entered into by the executive power relating to the national territory or the political organization of the country shall require approval by the national Congress by a vote of not less than three fourths of its members.

On the other hand, the Constitution of El Salvador has the following provisions.

Article 8. The territory of the republic within its present boundaries is irreducible; it includes the adjacent sea within a distance of two hundred marine miles measured from the line of lowest tide, and it embraces the air space above, the subsoil and the corresponding continental shelf.

The provisions of the preceding section do not affect freedom of navigation in accordance with principles accepted by international law.

The Gulf of Fonseca is a historic bay subject to a special regime.

Article 9. None of the constituted branches may make or ratify treaties or conventions that will in any way alter the established form of government or impair the integrity of the territory or sovereignty of the state.

However, the fact that a situation presents a certain degree of rigidity does not necessarily mean that the problem is insoluble. More so, when in the Constitutions there are other provisions which make it possible to approach such problems with an open mind and from the standpoint of economic integration.

Thus, Article 9 of the Honduran Constitution reads:

Article 9. Honduras is a state separated from the Federal Republic of Central America. Consequently, it recognizes the primary necessity of restoring a union with one or more states of the former federation. To this end, the legislative branch is authorized to ratify treaties aimed at accomplishing this partially or in full, provided this is proposed in a fair and democratic manner.

And Article 10 of the Constitution of El Salvador provides:

Article 10. Inasmuch as El Salvador is a part of the Central American nation, it is under obligation to promote the total or partial reestablishment of the Republic of Central America. The executive branch, with the approval of the legislative branch, may do so in either confederated, federal, or unitary form, without the necessity of authorization or ratification by a constituent assembly, provided that republican and democratic principles are respected in the new state, and that the essential rights of individuals and of associations are fully guaranteed.

Twenty years after Central America's first attempts to achieve economic integration, the concept of a Common Market and of a Customs Union is still the awaited instrument which will assure a better life for the inhabitants of the area. This, together with the aspirations of Central American statesmen who seek a common solution to common problems, undoubtedly constitute the only course leading to a future of peace and progress under the rule of law.

CARIBBEAN FREE TRADE ASSOCIATION (CARIFTA)

The tenth meeting of the Council of Ministers of the Caribbean Free Trade Association was held in Roseau, Dominica, July 10-13, 1972. At the Meeting, the Council reaffirmed the recommendation it had previously made to the various CARIFTA Governments at the November 1970 Sixth Meeting of CARIFTA in Georgetown, Guyana, that they jointly seek a relationship with the European Economic Commission with a view to safeguarding vital export commodities of the region. The text of the resolution follows:

- a. Council considers it essential that the CARIFTA countries should seek a group relationship with the enlarged EEC because of the following two fundamental considerations:
 - i. the need to obtain the best possible terms at minimum cost through joint bargaining based on the collective power of the countries of the Region;
 - ii. the urgent necessity to preserve the integrity of the present CARIFTA arrangements and to 'deepen' CARIFTA, while continuing to apply special measures and instruments in favour of the LDC's.
- b. Council reaffirms its recommendation to Governments made at the Sixth Meeting in November 1970 that *all* the CARIFTA

Governments should decide *to seek as a group* a relationship with the enlarged EEC with special arrangements to safeguard vital export commodities, without prejudice to the status already secured for the respective States consequent on the listing in the Treaty of Brussels of the Associated States, Belize and Montserrat as being eligible for association under Part IV of the Treaty of Rome. (It is the understanding of the Council, pursuant to assurances given by the U.K. Government, that there will be no constitutional impediments to the participation of the Associated States, Belize and Montserrat in negotiations for such a group relationship with the enlarged EEC).

- c. Council agrees on the immediate establishment of a Regional Working Committee under the Secretary-General and including Mr. A. Mc Intyre of U.W.I. and Mr. St. A. Clarke of ECLA, technical personnel from the two Regional Secretariats and from the Member States specially made available for the purpose. The Working Committee will be responsible for recommending to the Council an approach to negotiations with the enlarged European Economic Community in pursuance of the objectives set out in (a) and (b) above taking specially into account the commodities listed under paragraph 91(c) of the Report of the CARIFTA officials (REP 15/72) and any other commodity referred to the Committee for consideration by a Member Government.

Also adopted at the Meeting were the following resolutions on Industrial Development Policy in the CARIFTA region, with special reference to the location of industries in the less developed countries.

COUNCIL:

Noting the number of special instruments already adopted to enable the Less Developed Countries of CARIFTA to share equitably in the gains from regional economic integration (such as the Caribbean Development Bank), the inclusion of all countries in the Oils and Fats Agreement and other improvements in this Agreement in favor of the Less Developed Countries, the Agricultural Marketing Protocol, the decision that the MDC's should guarantee markets at negotiated prices for increasing volumes of certain agricultural products produced in the LDC's intra-regional technical assistance being provided by the MDC's to the LDC's.

Reaffirming its understanding that in Annex A to the CARIFTA Agreement Commonwealth Caribbean Heads of Governments accepted the

principle that industrial development in the Less Developed Countries was to be a concomitant feature of the growth of the Free Trade Area;

Concerned that, notwithstanding the devices and instruments adopted, no significant industrial development has so far taken place in the LDC's;

Recognizing that the CARIFTA Agreement has accepted the principle of the establishment of regional integrated industries in the Region (See Annex A of the CARIFTA Agreement);

Conscious of the fact that the promotion of industrial development in the Region and particularly in the LDC's, is a regional responsibility;

Mindful of the importance of adequate infrastructure and public utilities, and vocational, technical and managerial training, and adequate intra-regional transport facilities to the industrial development of the LDC's;

Convinced that every effort should be made to ensure that industrialization should take firm root immediately in the LDC's;

RESOLVES that:

1. All industries established in the Region should make maximum use of regional raw materials.
2. Industries already located in the Region should be encouraged to develop "linked" industries in the LDC's and the using industries should undertake to utilize the inputs thus produced.
3. Where an existing industry in an MDC seeks to expand capacity in order to take advantage of growing demand in other countries of the Region and where there are no significant constraints, the authorities of the MDC concerned should, where possible, give encouragement to the location of such expanded capacity in the LDC's.
4. In the interests of achieving economies of large-scale production it is undesirable to encourage excessive duplication of existing production facilities producing identical products or an excessive degree of product differentiation among MDC's. However, the LDC's should be encouraged to undertake such production where it could be demonstrated that the growing regional market could accommodate such production. In this connection, the provisions of Article 39 or any amendments thereto of the CARIFTA Agreement ought to be applied in the

interests of safeguarding the market for this product in the LDC's.

5. In view of the fact that new industrial production in most lines of manufacturing activity to be located in the LDC's could without difficulty be absorbed in the growing regional market, the establishment of similar industries in the LDC's and MDC's is not mutually exclusive. Nevertheless, it remains of the utmost importance that the MDC's should assist in the promotion of new industries in the LDC's along the following lines:
 - a. In the strategy for regional industrial development the MDC's should pay due regard to such manufacturing activities as are identified as suitable for establishment in the LDC's by project and other studies;
 - b. The MDC's should make available to the LDC's the facilities which they already have for research as well as their industrial and other technical institutions in order to promote and accelerate industrial development in the LDC's;
 - c. The public authorities in the MDC's should encourage enterprises operating in the MDC's to establish joint ventures to set up industries identified as being suitable for location in the LDC's;
 - d. CARIFTA Governments should immediately call upon the Caribbean Development Bank to review its financing policies and practices in relation to industrial development in the LDC's and, where necessary, put itself in a position to enable it to contribute substantially to both the equity and loan financing of industries identified as suitable for location in the LDC's.
6.
 - a. The Council *affirms* the importance of a policy for the location of industries in the Region and urges need for the implementation of a programme for locating particular industrial activity in the Less Developed Countries.
 - b. The Council *recognizes* the formulation of such a policy and a programme may involve the acceptance of constraints by the More Developed Countries.

- c. The Council *accepts* the need for regional agreement on the essential features of that policy and on the criteria for the formulation of that programme as part of a regional strategy for industrial development.
 - d. With a view to reaching such agreement with the least possible delay the Council agrees upon the establishment of a "Location of Industries Task Force" headed by the Secretary-General with membership to be drawn from the Commonwealth Caribbean Regional Secretariat, the Secretariat of the East Caribbean Common Market, the Caribbean Development Bank, the Economic Commission for Latin America, UNIDO and the University of the West Indies, to draw up an operational plan to locate in the LDC's industrial activities which are identified as suitable for location in these territories. It should be the aim of the Task Force to report not later than 30th September, 1972.
 - e. The Task Force should take into account:
 - i. The Decision of the Ninth Council of Ministers on *Mechanisms for Influencing the Location of Industries*;
 - ii. The recommendation of Officials on Agenda Item 8(a) of the Tenth Meeting of Council of Ministers — *Completion of Consideration of Report on Working Party on Location of Industries*;
 - iii. The other paragraphs of this Resolution.
7. In order to facilitate the implementation of all the above-mentioned principles; it would be necessary for appropriate organizations of the Region, assisted where necessary by external technical assistance, to draw up long-term projections of regional direct and indirect demand for agricultural, and industrial products and for service industries as part of a regional Perspective Plan which would be constantly subject to revision and to continuous carry forward in the light of changing circumstances.
8. The Governments of the MDC's should encourage their nationals and companies to invest in industries in the LDC's. The Council invites the Committee of Regional Ministers of Fi-

nance to give consideration to appropriate fiscal devices designed to achieve this end.

9. The Scheme for the Harmonization of Fiscal Incentives to Industry should permit the LDC's to grant Export Allowances to enterprises exporting to the MDC's as well as to extra-regional markets.
10. The origin rules of the CARIFTA Agreement should be relaxed in relation to exports from an LDC to an MDC. So long as the general 50 per cent criterion (qualified by the Basic Materials List) is in use, the percentage applicable to the LDC's should be 35 per cent. When a Process List is introduced the qualifying processes for the LDC's should be made easier than for the MDC's.
11. Potential equity participants throughout the Region, both private and public, should be brought together immediately by some appropriate regional institution — for example, the Caribbean Development Bank — to apprise them of the industrial development possibilities in the LDC's and to lay the foundation for future discussions about the financing of industries to be located in the LDC's.
12. An Industrial Promotions Unit should be immediately established in the ECCM Secretariat to actively follow-up the promotion of new industries and the expansion of existing industries in the LDC's. Such a unit would establish contact with public sector and private sector investors from both the LDC's and the MDC's as well as from extra-regional sources, including international financing agencies.
13. The public and private sectors of the MDC's, acting together and assisted where necessary by international agencies, should immediately launch a programme of Technical Assistance for Vocational, Technical and Managerial training of personnel from the LDC's.

It was also decided at the Meeting that, apart from the Agricultural Marketing Protocol, the more developed countries guarantee the purchase, in an ascending scale and over a period of years at prices to be negotiated, of a number of agricultural products whose production could be increased in the less developed countries.