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LATIN AMERICAN ECONOMIC INTEGRATION

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IMF ASSESSES LATIN AMERICAN ECONOMIC PERFORMANCE FOR FIRST HALF OF 1976

The Director of the Western Hemisphere Department of the International Monetary Fund, Mr. Jorge Del Canto, appraised the economic performance of the Latin American and Caribbean nations for the first half of 1976 at the Third Canadian Financial Conference Board in Toronto on June 23. Regional statistics, released by the IMF as of that date, disclosed a moderate improvement in the balance of payments positions of the Latin American-Caribbean nations, as well as some stabilization in domestic price levels. These favorable trends were attributed to a renewed economic expansion in the industrialized countries, which was accompanied by a demand recovery for Latin American/Caribbean exports. Specific examples cited include Chile, which is expected to benefit from a rise in the export price of copper, and Colombia, where the rise in the international price of coffee has already stimulated economic growth.

The Director observed that the economic downturn of 1974-1975 engendered a new, more decisive direction in the budgetary policies of many Latin American/Caribbean nations. The emphasis no longer appears to be on stimulating demand through public deficit spending and other inflationary income policies. The new focus is upon exchange rate management, which is intended to achieve an adjustment in external trade accounts without inducing domestic inflation. He noted that few nations in the region have resorted to an increase in artificial trade barriers, such as tariffs or import quotas, as a major adjustment policy.

A moderate acceleration of exports and the rate of export earnings in 1976 have enhanced the balance of payments position of the oil-importing nations within the region. Exchange rate adjustments, along

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with other factors, have resulted in a stabilization or decline in import levels. The improved balance of payments position for these nations is reflected in statistics published recently by the IMF. It is estimated that the aggregate balance of payments deficit, for the Latin American and Caribbean nations, as reflected in their current account balance, will decrease by \$3.5 billion (U.S.) by the end of 1976. The deficit in official net reserves is also expected to decrease by \$1.2 billion, or by approximately half the net use of reserves in 1975. Gross reserve holdings, however, will decrease less rapidly as monetary authorities increasingly rely upon the use of official reserves as a means to finance trade deficits. A net use of IMF resources to the extent of two-thirds to three-fourths of a billion dollars is also anticipated.

The current account balances of the oil exporting countries are expected, according to the appraisal, to decline in 1976 from a surplus of \$2.4 billion in 1975 to a surplus of \$1.4 billion for this year.

Inflation is expected to continue throughout the region, but at a decelerated rate in 1976. Chile, which was ravaged by a rate of inflation exceeding 300 percent in 1975, is expected to reduce this figure by as much as one-half. Uruguay is also reporting progress in reducing inflation from the 80 percent figure recorded in 1975. Argentina, which quite recently has been struck with severely high rates of inflation, is currently undertaking a stabilization program, the results of which are as yet undisclosed.

ANDEAN GROUP FORCED TO RE-EVALUATE PRIORITIES

After making significant progress towards the attainment of a customs union within the region, the Andean Group (ANCOM) this year encountered the first major ideological conflict in its brief history. The initial controversy emerged when the Cartagena Commission failed to reach a consensus concerning the full elimination of customs duties and the imposition of the common external tariff within the time limits prescribed by the Cartagena Agreement. Although originally focused upon technical matters, the conflict soon involved questions of strategic and ideological significance, encompassing the basic integrational objectives of the group. A prolonged impasse in the decision-making process ensued.

The present difficulties follow six years of virtually uninhibited progress toward economic coordination among the Andean nations. The

degree of unity thus far achieved — unparalleled elsewhere in Latin America — can be attributed to the ANCOM policy of seeking balanced, harmonious economic development in conjunction with the establishment of a free trade system. The sectorial development program, by which production of important commodities is allocated equitably among the six members, is the basic mechanism designed to secure the benefits of liberalized trade for the less developed members. Both the assignment of production under the programs and the reduction of customs duties are to proceed according to schedules set by the Cartagena Agreement.

By 1975, approval had been secured for the implementation of the sectorial programs in the metallurgical, mechanical, and petrochemical industries. The approval for ten other basic industries was to have occurred in December, in accordance with Decision 25. However, a dispute concerning the rate of further tariff reductions and the fixing of the common external tariff precluded its implementation by the December 31st deadline. A failure to reach a consensus on these matters suspended all further decision-making through the first quarter of 1976.

The basic disagreement involves Colombia and Chile on the one hand and Bolivia, Ecuador, Peru, and Venezuela on the other. The first two nations are among the more industrially advanced in Latin America and have traditionally viewed the trade liberalization program as essential for the expansion of production within their industrial sectors. These nations have advocated that the tariff-cutting programs and common external tariff be implemented in strict accordance with the time schedules set by the agreement. Any postponements would require a modification of the agreement, which presumably would entail extensive negotiations. The Chilean representative to the Commission stated that a prolonged extension would be injurious to the consumer and would induce uncertainty and disenchantment within the business community. The sectorial development program was also criticized as creating “highly protected industries” from which it will be “difficult in time to demand the necessary efficiency.”

Colombia expressed additional dissatisfaction with the results obtained thus far under the tariff-cutting system. The government earlier this year cited statistics prepared by that nation’s private industrial group, the Asociacion Nacional de Industriales (ANDI), suggesting that the system has detrimentally affected Colombia’s balance of payments position. The statistics disclosed that in 1974, while 63 percent of Colombian imports qualified under the system, only 11 percent of its exports so quali-

fied. Colombia's Minister of Economic Development stated that inequitable tariff treatment and exclusion of full Colombian representation in the ANCOM administration would force his government to take a more inflexible position in future negotiations in defense of its national interests.

Earlier this year, the Ecuadorian Minister of Industries, Commerce, and Integration stated his government's position that further tariff cuts, if not scheduled in conjunction with the sectorial programs, would have disastrous consequences for the less developed nations within the region. He stressed that unless the goal of balanced, harmonious development takes first priority, free trade would soon turn ANCOM into a mere marketing arrangement, whereby the industries of the less developed members would be overwhelmed by the more advanced and efficient producers within the region. The Chilean/Colombian position was further characterized as an argument for meeting timetables without taking into consideration the particular needs of the less developed members. According to the Minister, an extension of tariff deadlines is needed until the sectorial programs are more fully established. This would be more consistent with the spirit of the Cartagena Agreement, which emphasizes balanced development. Bolivia, Venezuela, and Peru concur with this position.

These events culminated in the XVI Period of Extraordinary Sessions of the Commission held earlier this year. The commission adopted Decision 100, which is basically a recommendation to the member governments of a protocol to be annexed to the Cartagena Agreement. The protocol calls for a substantial modification in the procedure for approval of individual sectorial programs. The requirement of unanimous approval within the time limits set by the agreement is eliminated in favor of a more flexible procedure allowing for majority approval. Any four members may contract among themselves to implement a particular program, leaving the others with the option to participate at a subsequent time. This format is designed specifically to avoid the procedural obstructions which brought about the present impasse.

A more flexible time schedule was also adopted for the common external tariff, with special emphasis upon the needs of the less developed members. While the Cartagena Agreement, as originally formulated, called for the implementation of the tariff by December 31, 1980, the protocol provides for its negotiation and approval by December 31, 1977, and its implementation in Colombia, Chile, Peru, and Venezuela by 1982, and in Bolivia and Ecuador by 1987.

The protocol, however, does not contemplate an extension of the trade liberalization time schedules as advocated by Ecuador. It is anticipated that this issue will continue to be a source of controversy in future negotiations.

CARIBBEAN COMMUNITY

The member states of the Caribbean Common Market (CARICOM) have agreed on new rules to determine which goods originate within the Common Market and therefore are entitled to free access to the entire regional market. This new system — the process criterion — was agreed upon at the Eighth Meeting of the Common Market Council of Ministers in St. George's, Grenada on the 23rd and 24th of April, 1976.

1. *New Rules Governing Intra-Regional Trade*

The new origin rules, which became operative on January 1, 1977, will replace the present rules under which goods produced in a Common Market state qualify for free entry into any other member state if foreign materials used in their production do not exceed 50 percent of the export price of those goods. The Less Developed Countries (LDC's) of the Common Market now use up to 60 percent of foreign materials.

Under the new process criterion system, eligibility for Common Market treatment will depend significantly more upon the extent of the manufacturing or processing operations performed within the Common Market and the origin of the materials which are used in such manufacturing or processing. The basic rule requires a change of classification under the Brussels Tariff Nomenclature (BTN) for a finished product where the product is produced from imported materials or components. The BTN is the internationally applied tariff classification system on which the Customs Tariffs of Member States are based.

Additional rules for certain goods will require that performance of specified manufacturing or processing operations and specified materials be of Common Market origin. As under the old rules, the new procedures also favor the LDC's by allowing different qualifying requirements concerning BTN Chapters 84-98 relating to assembled products. The new rules also allow qualifying requirements to be amended for certain goods after interim periods of one or two years in order to achieve a deepening of the manufacturing processes in particular industries.

The Caribbean Community Secretariat will issue an explanatory brochure on the new system prior to its introduction in January, 1977.

2. *Agriculture*

The Common Market Council also reviewed the CARICOM relationship with the EEC under the Lome Convention, particularly in regard to the relations of the non-independent Part IV Countries and the present situation regarding sugar and bananas.

3. *Regional Transportation*

The Standing Committee of Ministers responsible for transportation in CARICOM met on April 30, 1976 to witness the entry into force of the agreement establishing the West Indies Shipping Corporation (WISCO). This organization is the successor to the corporation which was established to operate the regional shipping service. WISCO is now embarking on a program of vessel acquisition designed to expand its fleet of ships and improve the shipping service offered to member governments. Also, the Committee endorsed the report of the Working Party which is currently formulating the basis for the rationalization of air passenger and freight transportation in the region.

4. *Standards Council*

The Caribbean Common Market Standards Council, established by the Eighth Meeting of the CARICOM Common Market Council, held its inaugural meeting on May 21, 1976. This council is an advisory body to CARICOM whose function is to promote the development of regional standards. The CARICOM ministers believe regional agreement on standards to be an important element in the growth of intra-regional trade which would help to dispel some of the difficulties having arisen in the past over the certification of products from member countries.

LATIN AMERICAN SUGAR PRODUCERS UNITE

Developments among sugar-exporting nations bear watching; given the right conditions, these nations could exert control over the market of this important commodity much as the oil-exporting nations do today.

Twenty-four nations have formed the Group of Latin American and Caribbean Sugar Exporting Nations (Gaplacea) as a flexible consulting and coordinating mechanism for the production and marketing of sugar.

The following countries are members of the group: Argentina, Brazil, Barbados, Bolivia, Colombia, Costa Rica, Cuba, Ecuador, El Salvador, Guatemala, Guiana, Haiti, Honduras, Jamaica, Mexico, Nicaragua, Panama, Paraguay, Peru, Dominican Republic, Trinidad and Tobago, and Venezuela.

At the fourth meeting of Gaplacea on March 7, 1976 in Cali, Colombia, the mood indicated that these nations support a hard-line policy designed to obtain higher prices for granulated sugar in the international market. President Lopez of Colombia expressed this attitude in the opening speech when he stated that “. . . the fight to improve the terms of trade between sugar and capital goods and consumer items we do not yet produce will have to be an open, direct and unyielding struggle. . . .”

During the meeting specific emphasis was placed on the control of sugar prices. The group advocated negotiations with developed countries to prevent sugar price fluctuations and concluded that now would be the most favorable time to negotiate with the traditional sugar-importing countries. Gaplacea considers two factors as being necessary ingredients to any agreement: (1) that the commitment to make a regular supply of sugar available be reciprocated by remunerative prices, and (2) that the importers guarantee a minimum price for a regular supply.

Prior international agreements between sugar exporters and sugar importers were destroyed by the recent sugar price instability in which the price of sugar rose from \$323 per metric ton to \$1300 per metric ton and then fell to \$290 per metric ton between March, 1974 and January, 1976. The cause of such price instability was successive failures of sugar beet crops in the temperate zone. As a result, only one prior economic agreement for sugar remains, that is, the Lome accord between the EEC and its former colonies.

Gaplacea is considering the inclusion in future agreements of certain provisions to guarantee more price stability and better remuneration for its members. One method would be to tie automatic adjustments in sugar levels to variations in the exchange rates of the currency in which they are set. Another solution would be to tie sugar prices to the United Nations index for the unit value of exports of manufactured goods.

There is little doubt that future sugar agreements with developed nations will replace the unilateral obligations of past agreements with a concept of reciprocal obligations. One consideration which may spur the

negotiation of such agreements is the fact that the great fluctuation of the price of sugar between March, 1974 and January, 1976 left most agreements in a state of collapse, and that the Lome accord is the only sugar agreement between the EEC and its former colonies.

The final report created a permanent committee of experts which will distribute information to member countries concerning substantial sales of sugar. The agreement, called the Cali Charter, placed the seat of the Secretariat General of Gaplacea in Mexico City.

Bolivia-Mexico Agreement

Subsequent to the fourth meeting of Gaplacea, Mexico and Bolivia signed a cooperative agreement resulting from a 1973 Joint Bolivian-Mexican Commission which dealt primarily with the sugar, steel, and wood industries. To enhance Bolivia's sugar production, Mexico will lend expert technical assistance in fertilization, irrigation, and the use of herbicides for the execution of a sugar mill project north of La Paz.

The effect of these developments and those of the July, 1976 meeting of Gaplacea held in Panama should prove considerably important to all the sugar-importing nations of the world.